

S. HRG. 110-1059

**THE STATE OF THE AIRLINE INDUSTRY: THE  
POTENTIAL IMPACT OF AIRLINE MERGERS AND  
INDUSTRY CONSOLIDATION**

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**HEARING**

BEFORE THE

**COMMITTEE ON COMMERCE,  
SCIENCE, AND TRANSPORTATION**

**UNITED STATES SENATE**

**ONE HUNDRED TENTH CONGRESS**

FIRST SESSION

JANUARY 24, 2007

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ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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# **THE STATE OF THE AIRLINE INDUSTRY: THE POTENTIAL IMPACT OF AIRLINE MERGERS AND INDUSTRY CONSOLIDATION**

WEDNESDAY, JANUARY 24, 2007

U.S. SENATE,  
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,  
*Washington, DC.*

The Committee met, pursuant to notice, at 10:15 a.m. in room SR-253, Russell Senate Office Building, Hon. Daniel K. Inouye, Chairman of the Committee, presiding.

## **OPENING STATEMENT OF HON. DANIEL K. INOUE, U.S. SENATOR FROM HAWAII**

The CHAIRMAN. If I may, I would like to submit my statement on the airline industry, and yield the chair to Senator Rockefeller. [The prepared statement of Senator Inouye follows:]

PREPARED STATEMENT OF HON. DANIEL K. INOUE, U.S. SENATOR FROM HAWAII

Over the past 5 years, the airline industry has suffered its worst financial performance in the history of commercial flight. Collectively, domestic air carriers have lost nearly \$40 billion, but after intense restructuring among the major carriers, the industry may have turned a corner. Even conservative estimates suggest the airline industry will turn a profit of \$4 billion in 2007. Despite this positive outlook, most industry observers warn that external factors or other negative business trends could dramatically impact any potential profits next year or beyond.

In this climate, US Airways has proposed a merger with Delta Air Lines that many believe would lead to rapid consolidation of the legacy air carriers serving the United States. Due to the industry-wide implications of the proposed consolidation, it is critical that the Senate Commerce Committee review and understand the potential effects of such a deal. Aviation is vitally important to our Nation's system of transportation and commerce. We must be quite certain that the likely benefits of various merger proposals far outweigh any potential consequences.

Financial analysts generally agree that consolidation will be good for the airline industry because it will quickly ease problems of overcapacity. However, industry is just one part of the equation the Congress must consider. We must also weigh the extent to which consolidation is in the best interest of consumers, particularly since the impact of decreased capacity on travelers and local communities is less clear. Multiple mergers would reduce air service where combined route structures overlap significantly, and consequently allow industry to raise fares and maintain much higher fares. Both of these consequences—fewer options and sustained higher prices—hurt the consumer. Further, airline workers, who have already given so much in wage and benefit cuts during the past 5 years, would have to compete for the fewer jobs that remain after consolidation of the fleet.

In the coming months, the Commerce Committee will be working on a significant reauthorization of the Federal Aviation Administration (FAA). We will continue to closely follow the state of the industry and the impact of airline mergers on the American public. If the benefits of consolidation are less than promised, we will have to consider addressing this matter in the context of the FAA reauthorization legislation we plan to develop this Congress.

**STATEMENT OF HON. JOHN D. ROCKEFELLER IV,  
U.S. SENATOR FROM WEST VIRGINIA**

Senator ROCKEFELLER. [presiding] I thank the Committee Full Chairman, will the Committee Full Chairman be waiting?

I do not have an opening statement, I'm going to encourage other members to just insert an opening statement into the record so we can get right to Senator Isakson, and get right to the witnesses.

Will the Chairman be able to ask the first round of questions?

The CHAIRMAN. Yes.

Senator ROCKEFELLER. Good.

The CHAIRMAN. But I'm just going to put my statement in the record.

Senator ROCKEFELLER. As I will. I will put my statement in the record. I hope all members will put their statement in the record, and thus will save us some time.

Senator STEVENS. Mr. Chairman, could we just have unanimous consent that all members may file an opening statement?

The CHAIRMAN. Is there any objection to that?

Senator ROCKEFELLER. That's a better idea.

The CHAIRMAN. Without objection, so ordered.

[The prepared statement of Senator Rockefeller follows:]

PREPARED STATEMENT OF HON. JOHN D. ROCKEFELLER IV,  
U.S. SENATOR FROM WEST VIRGINIA

We are approaching the thirtieth year of airline deregulation. Airline deregulation changed the very nature of air travel in this country. For millions of Americans in large urban areas, it ushered in an era of affordable air travel, but for hundreds of small communities, including all of West Virginia's, deregulation meant a loss of service and convenience, and often higher prices. It seemed to me that the big jets disappeared from West Virginia within days of deregulation.

Deregulation brought dramatic change to the airline industry. The only constants deregulation brought to the airline industry was brutal competition and financial instability. Legendary airlines such as Pan Am, Eastern Airlines, and TWA could not survive the competitive onslaught that deregulation brought nor could many others. However, deregulation allowed airlines like Southwest and other low-cost carriers to thrive and provide consumers, mostly in large markets, lower fares and more choices.

In the industry's frequent periods of financial trouble, airlines either merged or went out of business. It comes as no surprise that after the last several years of serious financial difficulty that the industry is on the precipice of consolidation again. With the proposed merger of US Airways, the product of a recent combination of US Airways and America West Airlines itself, and Delta Air Lines, all other legacy airlines would likely seek partnerships of their own.

However, the consolidation this time would be different and have far greater consequences. In previous rounds of consolidation, regional carriers merged to create larger airlines to allow them to compete or healthy carriers bought the assets of weak carriers. No one merger threatened the competitive balance of the industry. If the largest carriers in the industry decided to merge, our Nation would have a dramatically different aviation market. We would go from having six major network carriers to three, which would have major policy implications for this country, especially in the area of small community air service.

There is no question that our airline industry is just emerging from one of the most difficult periods in its history. U.S. air carriers are beginning to see the results of ongoing cost reduction efforts and increased passenger flow. The Air Transport Association, the primary trade organization of the Nation's airlines, recently projected an aggregate net profit of \$2 billion to \$3 billion for 2006, and more than \$4 billion aggregate net profit in 2007 on operating revenues exceeding \$150 billion.

Despite this recent economic upturn in the industry, we must remember that between 2001 and 2005, the domestic U.S. airline industry posted \$35 billion in cumulative net losses. The poor financial performance of air carriers over this period was heavily exacerbated by a number of external factors, beginning with the September

11, 2001, terrorist attacks, which precipitated a dramatic slowdown in air passenger traffic.

We must also remember that this return to profitability has not come without a price. The legacy carriers have aggressively sought to cut costs by reducing labor expenditures and by decreasing capacity through cuts to flight frequency, use of smaller aircraft, or the elimination of service to some communities. Airlines cut almost 140,000 jobs in the last 5 years. Those employees who kept their jobs did so by accepting billions of dollars in wage and benefit reductions. The airlines have used bankruptcy to terminate defined-benefit pension plans, costing the Pension Benefit Guarantee Corporation and airline employees billions of dollars.

There is clearly a strong probability that air fares will continue to go up in a number of markets. Consolidation may accelerate this trend. No one wants to advocate for higher air fares for consumers, but for too long, the competitive environment that carriers faced forced them to offer their services at an unrealistic cost. Financially weak carriers may produce benefits for consumers who have choices, but they are devastating for small communities.

As we all know, small and rural communities are the first to bear the brunt of bad economic times and the last to see the benefits of good times. The general economic downturn in the aviation industry over the last 5 years has placed exceptional burdens on air service to our most isolated communities. In West Virginia, Tri-State Airport in Huntington lost service to Pittsburgh and Atlanta, the Harrison-Marion Regional Airport in Clarksburg lost service to Cincinnati and Washington, D.C.

As the Government Accountability Office has noted, most small communities' service levels remain far below their pre-September 11th levels despite the airlines increasing capacity levels. West Virginia has five communities that currently only have one air carrier. The proposed merger between US Airways and Delta would put 100 percent of West Virginia's second largest airport, Tri-State, and over 60 percent of our largest airport, Yeager Airport, into the hands of into the hands of one company. Because of the lack of competition in many West Virginia markets, air service options are extremely limited and fares are high.

The airline industry's restructuring has been brutal and it may not be over. Although there is a positive outlook for the immediate future, the long-term financial outlook for the industry is still uncertain at best. The industry has enormous debt levels, fuel prices are vulnerable to spiking upward, and newly found pricing power may collapse as competition increases.

Over the last 2 years, I have met with almost every major airline Chief Executive Officer (CEO). I have heard most of them advocate for consolidation within the industry. I am not unilaterally opposed to consolidation, but I believe that every transaction has to be considered on its own merits. I know that our Nation needs a financially healthy airline industry. Air service to small communities in my state and across the country depends on network carriers who use hub-and-spoke operations. We do not have any other options. Low-cost carriers are not going to serve West Virginia's communities because they are too small.

Our hearing today will allow to examine the potential impact another round of consolidation would have on the airline industry and the communities and consumers they serve. Given that this proposed merger between US Airways and Delta Air Lines could set off a round of industry consolidation, this Committee needs to understand the effects consolidation would have on competition and small community air service.

My state needs healthy network carriers if we are to attract new air service. At present, low-cost carriers are not going to fill the service void in our markets. Congress and the Administration need to develop policies that promote competition but also make sure all communities have access to affordable air service. Balancing these competing values will not be easy.

As much as I believe that regulating the airline industry again is necessary, I recognize that we are not going back. The industry is far too changed and far too global for us to return to a completely regulated environment. However, I am becoming increasingly convinced that some regulation may become an option to make sure small communities are not harmed by consolidation.

I look forward to hearing from our witnesses today. I know that the future of the airline industry will be a continuing issue for this Committee.

Senator ROCKEFELLER. I'd like to now introduce Senator Isakson for whom I have a particularly high regard, for reasons which he knows, and I know and many folks in Appalachia know. And he

asked if he could make a statement, and I was more than happy to allow him to do that.

Senator Isakson, you may proceed.

**STATEMENT OF HON. JOHNNY ISAKSON,  
U.S. SENATOR FROM GEORGIA**

Senator ISAKSON. Thank you Chairman Rockefeller, Chairman Inouye, Vice Chairman Stevens. I appreciate you giving me this courtesy. I asked to do this today because I wanted to introduce the President and CEO of Delta Air Lines.

I wanted to introduce him for a couple of reasons. He's a very humble man, and I was afraid he wasn't going to tell you all of the great things about what he and Delta Air Lines and employees have done during difficult times.

But second, I think it's important to have a perspective into why the Commerce Committee is looking into the state of aviation in this country, and what has gotten us to the point that we are.

My background in this is not just by being from Atlanta and knowing Delta. My background is, in the 6 years preceding my election to the U.S. Senate, I served on the Aviation Committee in the House. I was there, and saw the after-effects of 9/11 on the aviation industry, watched with horror what happened in that affair. Watched further as gas prices spiraled, and the cost of running of an airline spiraled out of sight, with little or no control. And I watched a great airline, Delta, go through very difficult times, as did every airline in the aviation business. I watched them go to the depths, and I've watched them now come back to the heights of what everybody would hope would happen.

Delta Air Lines, under the leadership of Jerry Grinstein, have done some truly amazing things. When the company went into bankruptcy, it had heavy debt, it had many, many problems with contracts, it had many, many problems with costs, it had many, many challenges with configuration of aircraft, and it had many ways in which it could go. But Jerry Grinstein decided it would go one way, and that's up. And he joined with his employees, together as equals, to make this airline back into one of the truly great airlines of the United States of America.

Jerry Grinstein has a great history in transportation. He was President of Burlington-Northern, and presided over the largest merger to create the largest railroad in the country, when they purchased Santa Fe.

Before that, he ran Western Airlines as President and CEO. And his most important accomplishment, I think this Committee would recognize, is he was Chief Counsel to the Commerce Committee of the U.S. Senate, preceding those accomplishments.

Delta Air Lines has, in a short period of time under his leadership, emerged as a great airline. It went into bankruptcy with the goal of emerging competitive and strong, and honoring its commitments to its employees, and to its customers. Delta Air Lines has cut its costs, reconfigured its aircraft, aggressively gone into international markets, made its fares more affordable, and the attitude of its employees give it one of the highest service rankings of any airline in the industry.

That doesn't happen by accident, and it particularly doesn't happen when someone's in bankruptcy. It happens when a company comes together and decides on greatness. Delta has joined in that greatness.

As you look around this room today, you'll see pilots, flight attendants, rank-and-file employees up and down, here to support their President, and that airline. And it should not go unnoticed on behalf of the U.S. Senate, that it was Delta Air Lines that went into bankruptcy, wanting to emerge with a commitment to honor its pensions to its rank-and-file employees.

In an age where pension funds are more often than not jettisoned under the PBGC, Delta went into bankruptcy wanting to come out honoring that commitment. With the help of the Chairman of this Subcommittee, the Members of the U.S. Senate, by a vote of 95-3, then-pension rules were modified in this country, and Delta Air Lines is honoring that commitment today, and it's not on the backs of the taxpayers of the United States of America.

All of that has happened under the quiet, calm and dedicated leadership of a great president of a great airline. Delta Air Lines.

Mr. Chairman, I thank you for the opportunity to introduce Jerry Grinstein, and tell his story. And like most everybody in Atlanta, Georgia, and like the buttons all of these employees wear, when you're from Atlanta, you feel like Delta Air Lines is your airline. They've done a wonderful job. They deserve to emerge from bankruptcy and compete again as the airline they have always been.

And I thank the Chairman, the Vice Chairman, and all of you for your attention, and your courtesy in holding this hearing.

Senator ROCKEFELLER. Thank you, Senator Isakson. And I must comment that in my several years on the Committee, I've never known such an eloquent speech to be given without the advantage of a single note.

[Laughter.]

Senator ISAKSON. Poor eyesight.

[Laughter.]

Senator ROCKEFELLER. The second panel will consist of Andrew Steinberg, who is Assistant Secretary of Aviation and International Affairs, U.S. Department of Transportation; Mr. Doug Parker, Chairman and Chief Executive Officer, US Airways; Mr. Gerald Grinstein, who is Chief Executive Officer of Delta Air Lines; Mr. Robert Roach, Jr., General Vice President, Transportation, The International Association of Machinists and Aerospace Workers; and, Dr. Mark Cooper, who is Director of Research, Consumer Federation of America.

If you gentlemen could come forward as quickly as possible. I will ask that you try to hold your remarks to 5 minutes. That's asking a lot, but we need to have that to move forward—we have a vote coming up at 11:30, that is very disruptive, as the Senate often is—and I wanted to give members a chance to ask you questions.

Mr. Steinberg, we'll start with you.

**STATEMENT OF HON. ANDREW B. STEINBERG, ASSISTANT  
SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS,  
DEPARTMENT OF TRANSPORTATION**

Mr. STEINBERG. Mr. Chairman, Mr. Vice Chairman, Members of the Committee, good morning. Thank you for the opportunity to appear today at this timely and important hearing.

Before I share our thoughts about the state of the industry and the role of consolidation and industry restructuring, I'd like to briefly explain the Department of Transportation's role in reviewing proposed mergers and acquisitions in the airline industry.

While we closely monitor all such transactions, and review them to assess their effect on domestic competition, airline economic fitness, safety, international alliances, and route authorities, as well as customer service, it is the Department of Justice that retains primary antitrust jurisdiction. Of course, we work closely with Justice, and we share our findings with them, but the decision whether to challenge a particular transaction under the antitrust laws is the province of the Antitrust Division.

Having said that, we at DOT obviously take a keen interest in all such proposals, given their potential impact on the national air transportation system.

The U.S. airline industry is at something of a crossroads. The last several years, as Senator Isakson noted, marked, perhaps, the most trying period in the history of the U.S. airline industry since deregulation. The attacks of September 11, the war on terror, the resulting new security burdens, SARS, and of course the markedly higher cost of fuel, have all made running an airline a much more challenging endeavor than ever before, and that's saying a lot.

But thanks, in part, to the sacrifices of airline stakeholders, including employees, suppliers and creditors, through multiple rounds of bankruptcy, it appears that the industry is poised to return to broad-based profitability in 2007.

It's a remarkable story. In the past 5 years, our network carriers slashed their annual non-fuel costs by nearly \$20 billion, and improved their productivity by 30 percent. Yet, during the same period of time, air travel has also become safer, cheaper and more abundant than ever before. And the good news for consumers is that the very circumstances that have kept fares low in the past, are now, I think, pervasive in the marketplace and should endure, even if we see some restructuring, and even as consolidation unfolds, and that's good for competition.

What are these factors? Well, they include the continued growth of low-cost carriers like Southwest Airlines in the domestic market, and the competitive responses that they unleash; the availability of essentially perfect price information for consumers via the Internet; and the lower cost structures that have now made profits possible even in a lower fare environment. And the proof is in the pudding, as they say. The average price of a ticket for an industry average trip of 882 miles has actually fallen since 2000, from \$125 to \$109, and this despite, again, the dramatic increase in fuel prices.

The recent encouraging financial results of our airlines, both network, and most of the low-cost point-to-point carriers suggests we are in something of an equilibrium, in which the industry can produce very low fares, and abundant service options in most parts

of the country, while enjoying modest profitability. The question is, over the long-term, can we sustain that balance? And to do so, I'd like to just note several problems.

First, our network carriers remain very highly leveraged, despite having shed a great deal of debt in the past 5 years while in, or near, bankruptcy. Second, industry results are still heavily dependent on even minor fluctuations in the two largest cost inputs, which are fuel and labor. Third, several of our biggest, and potentially most lucrative, international markets are still not open to our carriers, at least not entirely, and these include routes to the United Kingdom, China, Japan, and parts of Latin America. Fourth, anachronistic restrictions on cross-border investment artificially hamper the ability of our airlines to capitalize on their inherent network strengths, and operate as global companies. Fifth, the continuous cycle of failure and domestic bankruptcy in the last several years in the United States has obviously been damaging to the industry as a whole; and that means our carriers must play catch-up, in terms of renewing their fleets, investing in technology and enhancing their products. Sixth, our air traffic system is becoming increasingly outmoded, and cannot support the near-tripling of capacity that we think is needed to meet the growth and demand for air transportation in the next two decades.

Now, the question of consolidation and industry structure, I think, should be considered in the context of dealing with all of these problems, and what emerges to us from this picture, is an overriding policy goal of having a healthy domestic airline industry that can broadly serve the needs of the public.

While the focus of this hearing is on mergers, industry consolidation, of course, can take a number of different forms, not just M&A activities, but also asset sales of airplanes, gates and routes, or even market exit. The Department of Transportation does not necessarily view mergers as a panacea to industry problems. Mergers are complex and demanding endeavors that have a poor track record in the airline industry because they're difficult to execute. But some have been successful.

At the same time, all major airlines today are, in fact, the product of at least one merger, including both Delta, and obviously US Airways.

Consolidation itself, we think, is part of the natural evolution of any business, and is an inevitable by-product of having a deregulated industry. While I can't comment on any specific transaction—and, in fact, none is pending right now for our review—I can say what our goals would be in reviewing proposed mergers.

In addition to the obvious one—

Senator ROCKEFELLER. Mr. Steinberg, if I can interrupt. What you have to say is extremely important, but you should know that you're already over the time limit, and simply to be fair to all the others to be able to speak, try and wrap up.

Mr. STEINBERG. I'm almost done, Senator, thank you.

While I can't comment on a specific transaction, I will tell you about the goals we will pursue in examining proposed mergers. Obviously, one is low fares. But also our interests include encouraging the use of market forces to encourage efficient and well-managed carriers to earn adequate profits and attract capital, ensuring con-

sumers in all regions of the United States have access to affordable, regularly scheduled air transportation, and strengthening the competitive position of U.S. carriers, to ensure, at least, equality with foreign air carriers. There's no "one size fits all" way to view airline mergers. And so, I think when it comes to consolidation, we have to keep an open mind toward any and all proposals.

I think I'll stop there. Thank you.

[The prepared statement of Mr. Steinberg follows:]

PREPARED STATEMENT OF HON. ANDREW B. STEINBERG, ASSISTANT SECRETARY FOR AVIATION AND INTERNATIONAL AFFAIRS, DEPARTMENT OF TRANSPORTATION

Mr. Chairman, Vice Chairman Stevens, and members of the Committee:

### **Introduction**

Thank you for the opportunity to appear before you to discuss the state of the U.S. airline industry, the role of the Federal Government in the industry's ongoing restructuring, and the prospect of consolidation. This is an important and timely hearing. Although I cannot discuss the specifics of any potential merger transaction, I can shed some light on our outlook for the industry, the role of consolidation in the context of a deregulated business, and the process the Department of Transportation will use in reviewing an airline merger should a transaction be presented to us.

### **State of the U.S. Airline Industry: Short-Term Recovery, Long-Term Challenges**

Let me begin with the state of the airline industry. The U.S. airline industry remains in the midst of an historic restructuring. Over the last 5 years, U.S. network airlines have reduced their annualized mainline costs excluding fuel by more than 25 percent, or nearly \$20 billion. While some of the cost savings were the product of identifying greater operational efficiencies, most of the savings were generated by renegotiation of existing contractual arrangements with creditors, aircraft lessors, suppliers and airline employees and achieved either through the bankruptcy process itself or under threat of bankruptcy. 22 percent of industry capacity is still operated in bankruptcy—down from a high of 46 percent in 2005 but still substantial by any measure. The result is that several carriers that were on the precipice of liquidation just 5 years ago now have much lower cost structures that should allow them to return to profitability over the short term.

The financial crisis that necessitated this massive restructuring and the sacrifices of our largest airlines and their employees was produced by the confluence of intense competition, structural conditions in the industry, and a series of exogenous events that temporarily depressed air travel demand or increased costs (*e.g.*, the September 11th terrorist attacks, the war on terror, greater security burdens, SARS, and much higher fuel prices). During this difficult period certain sectors of the industry fared relatively better than the network airlines, including low-cost and regional carriers and cargo/express operators.

In addition to geopolitical challenges, the industry has also found pricing to be increasingly competitive. Low-cost carriers (LCC's) increased their share of the market from 23 percent to 30 percent during this time period, bringing prices down on many origin-destination routes ("citypairs") to the benefit of air travel consumers. At the same time, the percentage of business travelers willing to pay substantially higher "walk up" or unrestricted fares has steadily fallen. These trends have been enhanced by the growth of the Internet as a mainstream marketing and distribution channel, creating an environment of nearly perfect price information for both leisure and business travelers, further curtailing the ability of network carriers to charge significantly higher prices to the most time-sensitive passengers. As a result, average yields fell from 14.2 cents per revenue passenger mile (RPM) in 2000 to 11.1 cents in 2005, before bouncing back to 12.4 cents in 2006. To put that in more understandable terms, the decline means that the price of a ticket for an industry-average, 882-mile trip has declined from \$125 to \$109.

This decline in average fares came despite the dramatic increase in the price of jet fuel over the past 18 months. Prior to their recent moderation, fuel prices more than doubled from approximately \$1.03/gal jet kerosene in mid-2004 to over \$2.23/gal in mid-2005 and remained near \$1.91/gal throughout much of 2006. Jet kerosene is now \$1.62/gal in the spot market, brought down by the very recent declines in the price of crude oil from which jet kerosene is derived. Fuel is now either the first

or second largest expense category depending on the airline, representing on average about 26 percent of cost. Each one-cent increase in the price of a gallon of fuel translates into an additional \$193 million annual expense for the industry. U.S. airlines have responded to the challenge of high and increasing fuel prices with operational and technological changes that have cut fuel consumption during the past 5 years, resulting in cost savings for the airlines, and cuts in emissions that benefit the environment. Nevertheless, fuel prices present a major challenge to the health of the industry in an environment in which airlines are obviously not able to pass on the full brunt of these higher costs to their customers. In effect, the growth in the fuel expense burden has masked the tremendous progress made by network carriers in cutting their costs to levels that are much more competitive with low-cost/low-fare carriers. Thus, on the positive side, if the very recent moderation in fuel prices continues, the industry is poised to reap material financial benefit in the short term, although again it is unlikely they would realize the full benefit of such savings. Overall, fuel price uncertainty will continue to motivate industry-wide cost discipline.

Airlines have focused on six areas of cost reductions:

- *Labor*—Taking a clear view of the necessity of cost reductions, labor and management have negotiated contracts that have generated major savings. In some cases, those reductions have been imposed through the bankruptcy process. U.S. network carriers have reduced their annualized labor costs by over \$11 billion over the last 5 years.
- *Fuel*—Fuel saving initiatives such as single-engine taxiing, more efficient fuel-reserve practices, and installation of winglets have resulted in significant cost savings.
- *IT/Reservations/Customer Service*—Technology-driven enhancements to airline websites and self-service kiosks have not only reduced the cost of bookings and passenger handling, but have also improved the ability of carriers to generate additional revenue at the airport from passengers willing to trade-up to premium services such as service class upgrades, one-day admission to airport lounges, or even exit-row seating.
- *External Distribution/Commissions*—The airlines renegotiated contracts with global distributions systems (GDS), further reduced travel agent commissions, and successfully induced travelers to book directly with carrier websites, which have resulted in substantial annualized air carrier savings. GDS booking fees have declined approximately 15 percent since mid-2003.
- *Fleet/Maintenance*—Fleet rationalization continues at a number of airlines both inside and outside of bankruptcy. Carriers are retiring older, maintenance-intensive, fuel-guzzling fleets with new aircraft that in many cases allow for common type-ratings, thus reducing training, spares, and maintenance expense.
- *Pension*—Bankruptcy has allowed several carriers to significantly reduce pension expenses. Furthermore, recent pension legislation will lessen funding requirements, thereby improving cash-flow. The result has been to shift to the Pension Benefit Guaranty Corporation (PBGC) an increasingly large burden of funding the pensions of airline workers. According to the PBGC, airline pensions today represent at least 38 percent of PBGC claims—but airlines paid just 2.6 percent of premiums.

For 2006, according to Wall Street analysts, the industry will record its first annual profit since 2000, estimated to be \$2 billion on revenues of nearly \$123 billion, for an approximate return on sales of 2 percent. The industry is also forecast to post profits this year, estimated to be approximately \$6 billion on revenues of approximately \$128 billion, or a 5 percent return. Over the short-term, network airlines are expected to maintain capacity and cost control. If the recent moderation in fuel prices continues, airlines will reap even more financial benefits from the structural changes made in their business models.

It is also important to note that over the last several years the significant and ongoing expansion in the scope of low-cost carrier operations within the domestic market has not only resulted in lower fares, but has substantially expanded the availability of those low fare offerings much more broadly than ever before. Consumers in many markets where deeply discounted fares were either unavailable or offered with very limited capacity now have a low-cost carrier option—and, of course, this service has had the effect of reducing the fares that network carriers offer in these markets as well. The price discipline created by a plethora of LCC offerings is pervasive.

Short-term prospects for the industry this year appear quite favorable based on the following factors:

- Positive revenue trends due to slower domestic capacity growth and very strong demand.
- Higher average yields in part due to less capacity pressure from low-cost carriers.
- Strong economic growth in the United States.
- Continued cost discipline.
- Improved balance sheets with encouraging levels of current free cash-flow.
- Recent decline in fuel prices.

With a favorable supply-demand dynamic in place for the domestic airline industry, we expect the positive revenue trend to continue in the near-term. On the supply side of the equation, network carrier available seat miles (ASMs) are expected to increase no more than 3 percent, with the bulk of the growth in international markets. In fact, network domestic capacity is expected to decline. Most capacity increases will come from greater aircraft utilization, another sign of improved productivity. Conversely, according to analysts, domestic ASM growth for the low-cost carriers will continue growing over 10 percent, resulting in continuing share gains for LCCs in the domestic market. Overall, industry-wide domestic capacity is projected to increase 2.6 percent. On the demand side of the equation, load factors have reached record levels, enhancing the effectiveness of airline revenue management systems, which should enable the network carriers in particular to improve the fare mix and thus overall revenues.

Over the long term, however, the outlook for the U.S. airline industry is more uncertain. The industry faces persistent structural problems that must be addressed if we are to avoid facing another wave of bankruptcies in the next economic downturn, and if the industry is to take full advantage of the very substantial progress made in lowering unit costs. These problems are discussed below:

First, many network carriers remain highly leveraged despite shedding significant debt while in or under the threat of bankruptcy.

Second, the two biggest inputs into the industry's cost structure—fuel and labor—are by no means fixed and thus the lower-cost foundation supporting break-even results in 2006 and modest profitability in 2007 is impermanent. With respect to labor costs, history suggests that organized groups will gradually seek to recoup the wage rate reductions acceded to in economic downturns and will do so at the earliest stages of industry recovery, which we are now seeing. With respect to fuel, given the airlines' inability to pass on the full impact of higher fuel prices to their customers, their bottom line remains quite sensitive to fluctuations.

Third, several of the biggest and most important international markets still have unnecessary constraints on competition—including the United Kingdom, China, Japan, and several countries in Latin America—that effectively protect foreign airlines and raise costs for U.S. carriers and consumers.

Fourth, cross-border investment restrictions artificially raise the cost of capital to U.S. carriers. Those restrictions also prevent U.S. carriers from optimizing their business models and taking advantage in international flying of their inherent network strength (a result of operating out of the world's single largest aviation market) and their newly minted, lower cost structures.

Fifth, the continuous cycle of domestic bankruptcies has required U.S. carriers to reduce capital expenditures substantially in order to bolster beleaguered balance sheets. This has meant delaying much needed investments in fleet renewal, new technologies, and product enhancements to remain competitive. This deficiency is becoming increasingly serious, especially as our carriers must vie with foreign rivals that have surged ahead in making such investments.

Finally, any discussion of the structural challenges facing the U.S. airline industry must also include mention of the apparent effects of the bankruptcy process not only on those firms that are forced to seek protection under the bankruptcy code, but also on the rest of the industry that attempts to operate without those protections. Respected airline industry analysts have frequently observed that the airline industry is, paradoxically, relatively easy to enter and hard to leave—sometimes characterizing this phenomenon as an “exit barrier” for failed firms that is the inadvertent consequence of the Chapter 11 reorganization process. They point out that airline stakeholders (lenders, suppliers and employees)—any one of whom could singly cause an air carrier's demise—rarely force such an outcome and instead trade in old contractual arrangements and debt for new ones. And the net result of those decisions is, perversely enough, that those carriers who manage to avoid bankruptcy eventually find themselves at a serious competitive disadvantage.

The airline industry is particularly susceptible to this phenomenon because the business is highly responsive to economic cycles. Just as most network airlines are

now expected to turn an operating profit, most lost substantial sums in the last several years; when one carrier finds itself in trouble, typically most others do. Consequently, when one firm falls behind on its aircraft lease payments, its lessors may lack the economic leverage to reclaim assets (because they cannot redeploy them profitably elsewhere)—and thus don't. This is compounded by the ability of airlines operating in Chapter 11 to win significant savings on their leases and postpone reconfirmation of leases, allowing bankrupt airline managers to "time" the bottom of the market and gain a capital cost advantage over their competitors. Airports that are reliant on large airline tenants face a similar bargaining dynamic in difficult financial times for the industry and must also make concessions that keep failing companies afloat. Organized labor usually makes the same decision; that it is better to keep their employer alive even at much lower wage rates than suffer the job and retirement benefit losses of failure. Similarly, the liquidation of an airline will ordinarily leave a debtor far worse off than a restructuring in bankruptcy—even one in which creditors get relatively little on the dollar—because even the prospect of a major airline shutting down will practically halt ticket sales, forcing assets to be sold at "fire sale" prices. Yet precisely because of the underlying volatility of the industry, the airlines in effect offer a huge "option value" to their stakeholders; that is, the risk of continuing to invest in or extend credit to a bankrupt or near-bankrupt airline is outweighed by the potential reward if the company should survive. All of this ensures that even failing airlines will almost always have access to capital, thus perpetuating the cycle of failure.

While these structural conditions cloud the long-term outlook for airlines, once they are addressed, the industry can more easily meet the public's expectation of low fares, reliable service for smaller communities, and innovative product offerings that are competitive in a global marketplace. Indeed, the role of international markets and the growth opportunities they now present for U.S. network airlines should not be underestimated. I am confident that if we can avoid another cycle of bankruptcies, there is every reason to expect U.S. airlines to succeed in exploiting their advantages to profit from the tremendous growth opportunities offered by the liberalization of international aviation markets through "Open Skies" Agreements. And ultimately, this will redound to the benefit of U.S. consumers in the form of more service to more destinations at lower fares.

#### **Role of Government: Consolidation in the Context of Complete Deregulation**

These observations about the short- and long-term state of the airline industry necessarily implicate the question of the appropriate role of government in the industry's ongoing restructuring. By deregulating the airline industry in 1978, Congress set the U.S. Government permanently on the path away from intervention in the marketplace. This was a wise choice. The Department of Transportation has long believed that deregulation has been a success in producing widespread service with low fares, while achieving a spectacular safety record. The American people continue to enjoy the most abundant, most reliable, safest, and most affordable air transportation in our Nation's history. Noting the success of airline deregulation, Congress went on to deregulate motor carriers, railroads, electricity, energy, telecommunications, and financial services. As governments around the world have increasingly opted for market-based approaches, deregulation has become the default policy of the global economy.

As we examine developments in the airline industry and consider the appropriate policy response toward them, the Department of Transportation strives to apply a "value-added" test for regulatory burdens. Simply put, at a time when the industry is buffeted by so many forces—some attributable to the marketplace, some to geopolitical challenges—government needs to ensure that each of its regulatory requirements continues to serve a valid public purpose, and the interests of the American people and the U.S. economy.

The Bush Administration has been applying that test rigorously, and finding ways to reduce further the regulatory burden while protecting the traveling public. For example, we eased the requirements on airports relating to the filing of competition plans. We repealed in their entirety DOT's 20-year-old regulations governing the use of computer reservation systems. We created an expedited, simplified procedure to award "route integration authority" for 5 years to all U.S. carriers who apply for it. We have eased tariff filing requirements for the airlines of countries with which the U.S. enjoys a liberal aviation relationship. And we simplified the requirement for disclosure of code-share and long-term wet lease arrangements in print advertising.

Our efforts to get unnecessary government constraints out of the way of innovation are further evidenced by our persistent pursuit of liberalized bilateral air serv-

ices agreements, adhering to the Open Skies model wherever possible. Working with the Department of State, and with the support of other agencies, we now have over 70 Open Skies partners. The U.S. Government has thereby created new commercial opportunities for U.S. carriers while bringing the benefits of affordable air travel across the world to American consumers and to foreign citizens desirous of spending money here.

We need to fully understand the problems affecting airlines and should take advantage of the current environment—in which the domestic airline industry appears to be in the midst of a robust cyclical recovery—by completing the work of deregulation. If we want a sustained recovery and the benefits that will bring to consumers we need to ensure that government does not purposefully or inadvertently prevent the industry from undertaking the restructuring demanded by market forces. This may necessitate a reexamination of regulatory and policy assumptions in key areas like bankruptcy, pension funding, labor relations, and aviation infrastructure financing and development. Our policies in each of these areas undoubtedly come with burdens and benefits not only for the flying public, but also for taxpayers, investors, and employees. We need to better understand the aggregate impact of these policies and ensure that they do not inadvertently create obstacles to an efficient and competitive industry in the long run.

This same philosophy will inform the Department's approach to larger policy questions involving the issue of "consolidation." The history of deregulation has shown quite clearly that American travelers and shippers can support a mix of carrier types with different business models. The challenge we face is to ensure that our regulatory regime does not stand in the way of marketplace forces that would otherwise result in new entry, business combinations, asset sales or even exit. In a dynamic market, new entry acts as a force that disciplines incumbents and thus ideally fosters innovation and efficiency. Just as new entrant firms must be afforded competitive access to satisfy marketplace demands, we must allow failing firms to exit the business if market forces decide that assets should be reallocated to more efficient firms. This is a natural consequence of a deregulated industry and the mechanism by which market forces ensure that the needs of American travelers and shippers are met in the most efficient way possible.

Industry consolidation—regardless of the sector—fundamentally occurs in three different ways—through the combination of firms, through asset sales, or through the exit of failed companies. Business combinations are not necessarily an elixir for any industry, much less the domestic airline business. Merging two air carriers is a demanding and extremely complex endeavor that requires effectively combining route networks, information technology systems, aircraft fleets, and perhaps most daunting, two different workforces. As a result of these many complexities, mergers usually fail in the airline industry, but some don't, and we should be open to both possibilities.

Completing the work of deregulation—the centerpiece of our policy—means better understanding the role that applying our competition laws has played, if any, in impeding market forces that may benefit the public interest. In this context, it is important to emphasize that the Department of Transportation must fulfill a broader set of statutory policy objectives than does competition law. While protecting the interest of U.S. consumers in having access to low airfares remains paramount, Congress has also instructed the Secretary of Transportation, in carrying out the Department's responsibilities to consider other important goals: including the use of marketplace forces to encourage efficient and well-managed air carriers to earn adequate profits and attract capital, to ensure that consumers in all regions of the United States have access to affordable, regularly scheduled air service, to promote a viable, privately-owned United States air transport industry, and to strengthen the competitive position of air carriers to at least ensure equality with foreign air carriers. Our analysis of a proposed merger will necessarily be informed by all these considerations.

However, before I leave this discussion on the role of government, I want to note that there is an important area where government can, and must, play a major role in driving change and innovation. Infrastructure constraints, and the resulting congestion problems are a significant long-term difficulty facing the airline industry. Congestion problems are widespread: travelers are delayed, airlines incur additional costs, and economic activity reliant on air service is slowed. Air traffic is expected to approximately triple by 2025 and, without action, congestion will become crippling.

In order to address this problem, the Department of Transportation is working along side several other Federal agencies including the Departments of Defense, Homeland Security, Commerce, NASA, and the White House Office of Science and Technology Policy to develop the Next Generational Air Transportation System,

what is known as “NextGen”. These efforts, spearheaded by the Federal Aviation Administration, are being coordinated through the Joint Planning and Development Office (JPDO), which is staffed by officials from all of these agencies.

NextGen promises to revolutionize the way in which air traffic moves by using networked information, satellite-based navigation, enhanced aircraft capabilities, new flight procedures, and automation among other things. These technologies will allow more efficient use of physical aviation infrastructure, thus boosting the capacity of our system and facilitating greater economic growth. We believe that, in creating NextGen, the Federal Government is contributing an essential element to the long-term success of the U.S. airline industry.

#### **DOT’s Role in the Review of Merger Transactions**

Now that I’ve provided some insight into our perspective, let me explain how the review process within the Department might transpire should any proposed transaction move forward.

In addition to requiring bankruptcy court approval, the proposed merger would be reviewed by both the Antitrust Division of the Department of Justice and the Department of Transportation. The Antitrust Division is responsible for determining whether the transaction will be challenged under the antitrust laws. The Department of Transportation would conduct its own competitive analysis of the proposed merger and by practice will submit its views and findings to the Antitrust Division privately.

DOT would also consider a wide range of public interest issues involving, among other things, route transfers, economic fitness, code-sharing, and possible unfair or deceptive practices. In practice, we would not formally consider such issues until the Antitrust Division advised us that it did not intend to challenge the transaction.

If a proposed transaction involved the acquisition of international routes, consummating the merger might entail the transfer of certificate authority to a new entity. By statute, 49 U.S.C. 41105, we may approve a transfer only if we find that it is consistent with the public interest. We must analyze the transfer’s impact on the viability of each airline party to the transaction, competition in the domestic airline industry, and the trade position of the United States in the international air transportation market. As a practical matter, transfers are important only when the acquired airline holds route authority in limited-entry markets. We would only decide whether to approve the transfer after we had established a formal record and given all interested persons the opportunity to comment. Our discussions with the Antitrust Division on a proposed merger would likely include a discussion of the competitive effects of the transfer of any international routes. If the Department determines that the transfer would be contrary to the public interest on competitive grounds or for another reason, the Department could disapprove the transfer in whole or part. Alternatively, the Department may condition its approval on requirements that would protect the public interest.

Usually, a proposed merger will result in a new corporate entity under new ownership, and when that is the case, the Department would conduct a fitness review, including a review of airline management, financials and compliance disposition. The Department would also review any codeshare arrangements concluded between the merging carriers under 49 U.S.C. 41720. In the Department’s experience, codeshare arrangements would likely be necessary during the early phases of integration post-merger. Meanwhile, the Department would also have to evaluate the impact of a merger on any domestic marketing agreements or international alliances. As U.S. airlines participate in all three worldwide alliances, some of which enjoy antitrust immunity from the Department and some of which don’t, we would need to review how the changes in alliance memberships affect airline competition.

The Department has the obligation under 49 U.S.C. 41712 to protect consumers from unfair and deceptive practices by airlines. In carrying out that responsibility, we could, if appropriate, review the proposed merger’s arrangements to protect the rights of consumers. For example, it could be necessary to assess whether the merging airlines plan to give consumers reasonable notice and an opportunity to adjust to any changes in the frequent flyer programs.

#### **Conclusion**

The issue of “consolidation” should thus be understood in the broader context of allowing deregulation to address the airline industry’s problems. An industry that is truly subject to marketplace forces will often go through phases of restructuring or consolidation. This can occur in a variety of forms—not necessarily just mergers and acquisitions. The airline industry is very dynamic. Thus government policy should evolve in parallel constantly taking into account rapidly changing economic conditions, competitive environment, and industry innovation. The government, ab-

sent a clear and convincing need to protect the traveling public, should not stand in the way of market forces acting to address structural problems within the industry.

To be sure, mergers are not a panacea for the industry's long-term problems. Because of the complexity of integrating different labor forces and fleets, many mergers in the airline industry have failed to fully achieve their creators' objectives. But we should not assume that having fewer network carriers necessarily translates into detriment to consumers. To the contrary, an industry populated by several successful firms could contain intense and diverse forms of competition as we can see in other industries, such as the cargo/express delivery business in which a few large firms compete vigorously not only on price but also on product innovation.

Let me be clear, however. My remarks today should not be interpreted as an endorsement or rejection of any particular transaction or combination of transactions, or of mergers as the optimal way to address the structural conditions that have impeded innovation. Each proposed transaction must and will be considered on a case-by-case basis. The airline industry should be held to the same antitrust standards as every other industry and certainly there will be transactions that fail to satisfy a rigorous antitrust test. But as the Department of Transportation examines such transactions, it will do so with a variety of statutory policy objectives in mind, not the least of which is our obligation to ensure a viable airline industry that can meet the transportation needs of the American people.

Thank you, and I would be pleased to take any questions.

Senator ROCKEFELLER. Thank you, Mr. Steinberg, very much. And we now turn to Doug Parker, Chairman and CEO of US Airways.

**STATEMENT OF W. DOUGLAS PARKER, CHAIRMAN/CEO,  
US AIRWAYS GROUP**

Mr. PARKER. Thank you. Mr. Chairman, Senator Stevens, other distinguished members of the Committee, thank you very much for the opportunity to appear before you today to discuss some of the issues confronting our industry.

I'm Doug Parker, Chairman and Chief Executive Officer of US Airways. I became CEO after the September 2005 merger of US Airways and America West Airlines. I'm very proud to be here today, representing our nearly 35,000 employees.

Senator ROCKEFELLER. Could you move the microphone just a bit closer?

Mr. PARKER. I'll try.

Senator ROCKEFELLER. Thank you.

Mr. PARKER. It has been 5 years since I addressed Congress, shortly after the tragic events of September 11th, and the airlines industry, at that time, was in a precipitous financial tailspin. But Members of this Committee, and others in Congress, stood with the industry in a much-needed show of support. We were grateful for your leadership, but none of us could have foreseen the severity and duration of the crisis that faced airlines.

Oh, I needed to turn it on. That's the first step.

Senator ROCKEFELLER. That would be helpful.

[Laughter.]

Mr. PARKER. I told you it has been 5 years.

Since 2001, the industry has experienced 24 Chapter 11 filings, and five liquidations, \$35 billion in cumulative losses, and 154,000 of our employees have lost their jobs. The severe impact of multiple shocks to the aviation industry caused us to repeatedly come back to Congress for help.

While you did help, we also heard the message—and appropriately so—that Federal support should be the exception, and not

the rule. And that it was time, as an industry, that we got our own house in order. At America West, now US Airways, we took that message to heart. We believed that if we aggressively managed our cost, and made things easier and simpler for customers, they would respond, and we would return to profitability. We were right.

Consumers responded favorably. So much so, that through the hard work of our employees, by 2004 we had returned our airline to profitability. In 2005, we merged with US Airways, a leading East Coast carrier that was then facing significant financial problems. We believed that a merger with US Airways presented an opportunity to strengthen our own company, provide a brighter future for nearly 35,000 employees of US Airways and America West, and a stronger airline for the communities and customers we served.

At the time of the merger, we faced many skeptics who did not believe that this deal, or any other large scale airline merger could work. The results speak for themselves.

Today, the new US Airways is the most profitable network carrier in the United States, with 2006 profits projected at better than \$500 million. Our market capitalizations increased from about \$150 million to over \$5 billion in just over a year.

For our people, we combined a fragile America West and a failing US Airways into a strong, viable competitor, and saved the jobs of over 30,000 hardworking, frontline employees. Not only did we not furlough anyone, but since the merger, we've hired 4,000 new employees. To be clear, these are baggage handlers, flight attendants, pilots—who not only did not lose their jobs, but will benefit from approximately \$58 million in profit-sharing payments to be paid this quarter.

With our current cash position of over \$3 billion, our financial stability has improved the job security of all of the members of our team. Our merger has also made things better for the 66 million passengers that flew with US Airways last year, to more than 250 communities. Our larger, combined airline offers a bigger network, with more flights to more destinations. Consumers have also benefited from our low-cost pricing philosophy, which brings lower fares to markets big and small, throughout our network.

Some examples of the thousands of routes where we have reduced fares by up to 83 percent, include: Augusta, Georgia; Huntsville, Alabama; Huntington, West Virginia; Syracuse, New York; Wilmington, North Carolina; Harrisburg, Pennsylvania; and most recently, Charlottesville, Virginia. In fact, we've lowered fares to over 1,100 markets since our merger.

I'm also proud to report that the U.S. taxpayer has benefited from our merger, as our financial success allowed us to repay the America West and US Airways loans from the Federal Government. The loans were paid early, with interest, and with a profit of over \$100 million to the U.S. Treasury.

In short, the merger has been a tremendous success for everyone. And we are continuing to work hard to wrap up the few remaining steps necessary to get to a complete integration of the two carriers.

But the success of that merger doesn't mean we can stop striving to improve ourselves, particularly in this brutally competitive industry. We believe we have an opportunity to make US Airways a better and more efficient competitor through our proposed merger

with Delta. We believe the proposed merger would be good for all employees. There would be no furloughs of front-line employees of US Airways or Delta, and we will raise every employee to the highest common labor cost.

We believe the proposed merger would be good for the communities we serve. No domestic city with US Airways or Delta service today will be without service after the merger, and no hub will be eliminated. In addition, we believe the merger will be good for consumers. We will implement our customer-friendly pricing in more markets to more destinations.

Even after this merger, our industry will still be highly fragmented, and highly competitive. Low-cost carriers are committed to continued, aggressive expansion. This is an important time for our industry. The market is bringing about positive change, and it should be allowed to continue. I would encourage Congress to let the market work, so long as any transaction is compliant with the antitrust laws. My fear is that, if we do not do that, future hearings will not be on the opportunities facing our industry, but about the overwhelming challenges—and ultimately, the need for additional industry bailouts.

Mr. Chairman, Senator Stevens, other distinguished Members of the Committee, thank you for this opportunity to visit with you today, and I look forward to answering your questions at the appropriate time.

[The prepared statement of Mr. Parker follows:]

PREPARED STATEMENT OF W. DOUGLAS PARKER, CHAIRMAN/CEO,  
US AIRWAYS GROUP

Mr. Chairman, Senator Stevens,

Thank you for the opportunity to appear before you today to discuss the issues confronting our industry. I am Doug Parker, Chairman and Chief Executive Officer of US Airways Group. I have spent over twenty years in the airline industry, starting with American Airlines, followed by Northwest Airlines, and then joining America West Airlines in 1995 as Senior Vice President and Chief Financial Officer. I became Chairman and CEO of US Airways after the September 2005 merger of America West and US Airways. I am proud to be here representing the 35,000 employees of US Airways Group. Every day, we operate almost 4,000 flights to nearly 250 communities in the United States, Caribbean and Europe. Our outstanding frontline employees are represented by the following labor unions—ALPA, AFA, IAM, CWA/IBT, and the TWU.

It has been 5 years since I last appeared before you. Today, I would like to speak to you about three issues—

1. The State of the Industry Since I Last Spoke With You;
2. The Successful Merger of America West and US Airways; and
3. The Future Prospects for the Airline Industry.

It was shortly after the tragic events of September 11, when I last addressed the Congress. The airline industry was in a precipitous financial tailspin when Members of this Committee and others in Congress stood with the industry by demonstrating leadership and conviction in enacting legislation to provide much needed liquidity to our industry. The measures passed by Congress—direct cash transfers, the creation of a loan stabilization board, and relief on war risk insurance premiums, among other actions—enabled the industry to cover its basic operating expenses, including paying employees and serving communities at a time when commercial loans and financing were unavailable at any cost.

All of us in the industry were grateful for the help of the Nation. And we all knew that the industry, like America, had been changed forever. But none of us could have foreseen the severity and duration of the crisis that faced airlines. Since 2001 there have been:

- 24 domestic Chapter 11 filings and 5 liquidations;

- \$35 billion in cumulative losses; and
- 154,000 airline industry employees laid off or terminated.

The severe impact of multiple shocks to the aviation industry caused the industry to repeatedly come back to Congress for help on a regular basis. While Congress did help, we also heard the message—and appropriately so—that Federal support should be the exception, and not the rule—and that it was time, as an industry, that we got our own house in order. At America West—now US Airways—we took that message to heart.

As a result, at America West, we re-doubled our efforts to lower costs and improve our business plan. We simplified our fare structure for the benefit of consumers by lowering many of our everyday walk-up fares, eliminating Saturday-night stay requirements and reducing the number of fare categories that we sold. Not only did we simplify those areas where passengers interacted with the airline, we also internally examined all our business processes and procedures. By eliminating inefficiency and waste, we were able to further lower our costs.

We believed if we aggressively managed our costs and made things easier and simpler for customers they would respond, and we would return to profitability. Consumers responded favorably to our new policies and pricing, so much so that by 2004, through the hard work of all of our employees, we had turned around our airline and returned it to profitability.

As we returned to profitability, we sought strategic opportunities to strengthen our company for the longer term. In 2005, we were presented with an opportunity to join with US Airways, a leading East Coast carrier that was then facing great difficulty. Through its two bankruptcies the carrier had made great strides in lowering its overall cost structure, but given the inroads made by low-cost competitors in its core markets, it was unclear that US Airways would ever emerge from its second bankruptcy. We believed that a merger with US Airways presented an opportunity to strengthen our own company and provide a brighter future for the nearly 35,000 employees of US Airways and America West.

Many experts questioned our strategy. We had named our merger with US Airways “Project Barbell.” One industry analyst called it “Project Dumbbell.” A national newspaper featured a headline that proclaimed “America West Foolishly Bets the Farm.” Yet, despite negative press, we raised over \$1.5 billion in equity and partner financing—the most ever raised by a U.S. airline. I am proud to say that for our employees, our shareholders, and our customers that “foolish bet” has paid off handsomely. Indeed, we posted a profit for the first three quarters of 2006, and are one of the only network carriers to forecast a profit for the fourth quarter. The front-line employees of US Airways and America West who sacrificed so much to turn around and then merge our companies will receive 2006 profit sharing payments in March. In fact, year-to-date through September 2006, our total accrual for profit sharing was \$48 million. We fully anticipate that amount to increase after we report our fourth quarter results next week.

Since the merger, we have worked to instill our customer-focused mantra across our larger, combined workforce. We have continued to implement popular fare reductions in diverse markets such as Syracuse, NY; Washington, D.C.; Huntsville, AL; Greensboro, NC; and Augusta, GA. Most recently, we have lowered fares in Harrisburg, PA. In total, we have lowered fares by as much as 83 percent on over 1,100 markets.

These fare reductions have proven beneficial to consumers and communities, particularly so in smaller communities where they have helped small airports retain their local traffic base, and kept local travelers flying from their hometown airport, instead of driving to other airports.

We are proud to have brought low fares to communities that have never been served by an airline with a low-fare mindset. US Airways, however, offers more than just low fares. We offer service to 234 destinations in the United States and 28 countries, including 19 European destinations with new service to Athens, Brussels and Zurich starting this summer. We also offer first-class seating, a generous frequent-flier program and the ability to connect to cities all over the world through our various code sharing agreements.

What we don't offer is the old legacy airline mindset. After September 11, we recognized the structural changes that were necessary to survive. Our industry is continuing to evolve, but it is clear that the days of high-fare, high-cost airlines are gone, and that low-cost carriers are growing and thriving. At the same time, the low-cost carrier business model of point-to-point flying is limited and cannot serve all passengers, especially those who want to fly to international destinations or the smallest of communities. We believe our hybrid model, drawing upon the best of the traditional airline model and the best of the low-cost model is the right plan for

today and for tomorrow. For price sensitive passengers, we offer low fares. For other passengers who want enhanced frequent flier benefits or access to a global network of destinations—we offer those as well. In a deregulated industry, there is ample room for both point-to-point carriers and healthy network carriers such as US Airways.

Financially, the new US Airways has been a success. Our stock appreciated 45 percent in 2006, and we made over \$400 million in profits (excluding special items) in the first 9 months of 2006. This has enabled us to lower our costs further by restructuring our debt to more favorable terms, reducing credit card holdbacks and increasing cash-flow. As I mentioned, we've set aside approximately \$50 million in profits, to date, to share with our outstanding frontline employees, not management. Finally, one other significant financial accomplishment was the complete and early repayment of both America West's and US Airways' ATSB loans ahead of schedule, with interest.

Mr. Chairman, we are proud of our accomplishments, our employees, and our airline in successfully navigating the challenging years since 2001. Despite naysayers and doubters at each and every critical juncture, we have remained loyal to our beliefs that if we managed our business well and gave customers what they wanted, our version of a network carrier would be successful.

While we believe we have done well, we know we can't rest on our laurels. We owe it to our shareholders and employees to constantly look for ways to make our company even more competitive in order to face the future and all that it may hold. With that in mind, we decided to launch a public offer for Delta Air Lines on November 15, 2006, after our private approaches were rebuffed. I would add that this transaction is different than the norm, as Delta is in bankruptcy. In this situation, it is Delta's creditors, not management or shareholders that ultimately are responsible for deciding Delta's future.

One of the key reasons why we believe Delta is an attractive merger partner is that Delta's bankruptcy provides an opportunity for Delta to restructure and lower its costs. US Airways successfully did this in its bankruptcies, and its lower cost structure is one of the reasons for the success of the America West/US Airways merger. We believe this success can be replicated and exceeded by a merger of Delta and US Airways. Allow me to highlight some key metrics and commitments of our proposal:

- \$1.65 billion in projected annual cost savings and synergies;
- No furloughs or layoffs of frontline employees of either US Airways or Delta, a promise we made and kept in the US Airways/America West merger;
- All domestic airports that have US Airways or Delta service today will be served by the new Delta after the merger;
- The new Delta also will be one of the most financially stable airlines in the industry. The company will be well-financed to meet its current and long-term obligations, as well as have a comfortable cash reserve to withstand industry downturns; and
- Finally, the new Delta will have a management team that understands how to integrate two large, complex airlines. We have been there before, and know we can do a great job with Delta.

Some critics cynically dismiss this merger as an attempt to generate a windfall for US Airways' shareholders and executives on the backs of the sacrifices made by Delta's employees during the bankruptcy. Such criticism misconstrues the philosophy that guides the US Airways' management team and Board of Directors. Our management team is not made up of financiers and other "Wall Street" types who are here for the deal and then move on to some other transaction with no regard for the employees. Rather, we are all airline people. Most members of the senior management team have 10 years or more running airlines. Put simply, we love this industry. That is why we are trying to build a network airline that can compete successfully against all carriers: low-cost, traditional, and international mega-carriers. In order to do that, we need to build an airline that is strong financially and able to withstand the next external shock or economic down-cycle that hits our industry:

- For consumers this means their favorite flights and services are there for the long term, as are their frequent flier miles;
- For communities, it means a partner and corporate citizen that also is in the community for the long term, with service stability and certainty; and
- For our employees, we want a company where their jobs and benefits are stable not just during the industry peaks, but also during the inevitable difficult times that are a fact of life in our industry.

Since this Committee last reviewed an airline merger some 6 years ago, a lot has changed in the airline industry. Six years ago, although Southwest had a national presence, airlines such as JetBlue, AirTran and Frontier were scarcely known beyond their home bases. Since the industry began to emerge from the depths of the immediate post-9/11 time period, it is low-cost carriers Southwest, JetBlue and AirTran that have led the industry, with both profits and growth. A few examples of this growth include:

- Since 2004, Southwest has started service in 4 major airline hub markets—Denver, Philadelphia and Pittsburgh and Washington Dulles, adding 126 new departures in these markets;
- JetBlue added 16 new markets in 2006 and has already announced new service to San Francisco this year. In addition, JetBlue serves 23 markets from Boston, having only started service there in 2004; and
- AirTran has grown both internally through the delivery of at least one airplane per month since 2005, and also is seeking to grow through an acquisition of Midwest Airlines.

Passengers have responded. Six years ago, low-cost carriers accounted for a small fraction of the market. Today these carriers account for approximately 30 percent of all domestic traffic and an even larger share along the Eastern Seaboard. As traditional carriers have redeployed aircraft from domestic routes to international routes, new entrants have moved to take advantage of the opportunities created. Indeed, these new entrant carriers are no longer afraid to compete head-to-head with traditional carriers. For proof of these carriers' popularity and strength one need only look at Southwest's entry into markets such as Baltimore-Detroit, Philadelphia-Columbus, and Denver-Chicago, or the fact that JetBlue offers a competing shuttle service within the Northeast as an alternative to the Shuttle flights operated by US Airways and Delta.

The low-cost carriers are continuing to grow. Today traditional airlines are only now looking at re-fleeting their mainline operations, with deliveries largely pushed out beyond 2010. By contrast, new entrant carriers have placed firm orders for almost 335 aircraft over the next 5 years. These new entrants and low-cost carriers provide head-to-head competition, for they are the price leaders in city pairs where they compete and they influence pricing in nearby markets. Our experience has been that passengers will drive 60, 90 or even 120 minutes for a lower fare. Today, we face low-cost carrier pricing from airlines such as Southwest, JetBlue and AirTran, whose combined market share currently approaches one-third of the domestic market. After the merger, 81 percent of US Airways/Delta passengers will have low-cost carrier competition at their local airports. An additional 13 percent will have access to such service within 100 miles.

We fully expect that, for example, by lowering fares in Harrisburg, PA, US Airways will recapture traffic that has been driving from Central Pennsylvania to Baltimore for lower fares. This phenomenon is repeated in communities big and small throughout the United States. The old US Airways would lose money on every ticket sold were it to have lowered fares in markets where it did not directly face low-cost competition, in places such as Harrisburg, PA, Wilmington, NC or Huntsville, AL. In sharp contrast, the new US Airways has a cost structure that permits it to lower fares and remain profitable, and indeed, we have to in order to compete with the growing low-cost carriers.

We believe that through our proposed merger we have the same potential to benefit consumers that we did in the US Airways/America West merger. With the ability to lower costs, gain efficiencies and adjust flying to better align demand and capacity, we believe we can lower fares in dozens of new markets and communities, just as we are doing at US Airways today. Moreover, passengers will benefit from the ability to get to more destinations via more routings; it is far more likely that thanks to the new Delta more passengers will be able to get to their destination at a time convenient for them and at a price that is reasonable, than would be possible under either stand-alone Delta or US Airways.

Because lots of misinformation and confusion has surrounded our bid for Delta, we want to provide you with the clear facts:

1. Every U.S. city currently served by either airline will continue to have service from the new company.
2. On the labor front, we have made several commitments to the employees and unions of US Airways and Delta. We have committed to moving to the highest common denominator on labor costs for all employee groups. We have committed to not furlough frontline employees of either US Airways or Delta. Instead, we plan to manage the mainline operational employee reductions through

attrition and other voluntary means, just as we did successfully in the US Airways/America West merger. We have committed to allowing Delta's employees, the vast majority of whom are not represented by a union, to decide for themselves the question of union representation, and to do so without management opposition. And we have committed to honoring the terms of all labor agreements—including the Delta pilot agreement. Finally, and importantly, we will not close any hubs in either the current Delta or US Airways' networks.

3. We expect that at the appropriate time the Department of Justice (DOJ) will fully investigate the merger. We plan to work cooperatively with DOJ during the investigation and have begun to do so already. We spent a lot of time prior to making our bid for Delta considering the many potential antitrust issues, and we believe that our transaction is beneficial for consumers, communities and a major step toward building a company that will provide stability for its employees over the long-term.

4. This merger is in the best interest of consumers. Our synergies are not predicated on raising fares. They are predicated on gaining efficiencies by cutting duplicative costs in locations served today by both US and Delta. If we were planning, as our critics claim, to gain synergies by raising fares, that plan would fail in the long run, because low-cost carriers would come in and undercut the higher fares. The industry is brutally competitive today and will remain so even after this merger. Our model is based on a sustainable plan to serve markets at a lower cost, and thereby be able to compete with low-cost carriers on price.

The decisions that we make will be decisions that we believe are in the best interests of the employees and shareholders of the new Delta and the consumers and communities we will serve. But, they are by no means zero-sum decisions. New entrants and low-cost carriers have hundreds of aircraft deliveries scheduled for the coming months and years. These carriers can and will quickly capitalize on new market or growth opportunities. Indeed, AirTran, JetBlue and Southwest have publicly expressed interest in acquiring divested assets as a result of the merger. In the current environment, the loss of a carrier in a market or a drop in frequencies does not equal a permanent loss of competition. What drives airline expansion decisions is demand, and demand is driven by continued economic growth and expansion. As the national economy continues to grow and regional economies grow even faster, demand for air travel will continue to encourage new market entry by traditional and low-cost carriers alike, as well as by new start-up airlines with business plans that have not yet been born.

Our industry stands at a crossroads. We can continue down the current path of boom and bust uncertainty, or we can chart a new course. The question that legislators and policymakers face is simple; shall we embrace change to better serve our customers, employees and communities, or are we content with a future of continued financial uncertainty and government bailouts? We believe—and our experience has proven—that we have to break with the failed policies of the past in order to provide a more sustainable future for all stakeholders.

Whether or not our industry is on the cusp of a major consolidation period, I don't know. What I do know is that our industry remains extremely fragmented with substantial levels of excess capacity. After the merger, and the announced capacity reductions, our industry will remain highly-competitive, and consumers will continue to enjoy high-service levels and low fares. We have put forth a fair and equitable proposal, which we have enhanced to make even more compelling, to merge with Delta while the carrier is still in bankruptcy, and to make the combination of Delta and US Airways into a stronger, more competitive carrier than either carrier can become on its own. Put simply, in this merger, 1+1 most definitely equals 3, just as it did with our prior merger.

While being a good corporate citizen is important to US Airways, and we know to Delta as well, the most important group of stakeholders are our customers and the frontline employees. Delta's historical reputation for customer service was not developed in the boardroom or the executive offices. It is earned every day on every flight by one of the most dedicated and professional workforces in the industry. I pledge to you today that we will not furlough any frontline employees of Delta or US Airways as part of this merger. We will align the work group cost structures between current US Airways and Delta employees, and going forward we will move to the higher cost scale. In fact, the day after the merger closes Delta employees won't notice any changes—not even a change to the name of the airline. Over time, we will seek to take the best practices from either Delta or US Airways and standardize them across the new combined airline. Our ultimate goal is to build a stronger and more secure future for all of our stakeholders.

Mr. Chairman, Senator Stevens, thank you for this opportunity to visit with you today. I look forward to answering any questions the Committee might have.

The CHAIRMAN. Mr. Chairman? May I interrupt?

Senator ROCKEFELLER. Absolutely.

The CHAIRMAN. I note that a quorum is present such—may I temporarily recess the aviation hearing, and return to Executive Session and adopt the Committee rules?

[Recess of hearing 10:35 a.m.]

[Hearing re-convened.]

Senator ROCKEFELLER. Our next witness will be Mr. Gerry Grinstein. And we're very happy to have you here, sir, and we look forward to your testimony.

**STATEMENT OF GERALD GRINSTEIN,  
CHIEF EXECUTIVE OFFICER, DELTA AIRLINES**

Mr. GRINSTEIN. The technology has changed dramatically since I was here, too.

[Laughter.]

Mr. GRINSTEIN. Thank you.

I appreciate the opportunity to discuss my views about the impact of consolidation on the airline industry, generally, and US Airways hostile takeover attempt of Delta, specifically.

In case there's any question of the hostile nature of it, take a look behind me at all of the people from Delta who have come here today to let you know by their presence how strongly they feel about this.

Congress is right to carefully examine this important public policy issue, because the decisions made now will effect the competitive landscape for years to come. Your decisions on consolidation, including any decisions made about the proposed US Airways/Delta merger, will impact consumers and communities across the country. If this deal is allowed to go forward, it most certainly will trigger broad industry consolidation, and the likely outcome will leave US Airways/Delta, the weakest of the carriers, with little West Coast and Asia presence, and a staggering debt load of \$24 billion.

In many ways, the market has already helped restructure the airline industry, so it is not clear to me that consolidation is inevitable. But, if consolidation does happen, it should happen in a way that does not unfairly penalize employees, does not harm consumers and communities, and provides long-term value for all stakeholders.

To ensure this, each transaction should be evaluated on its own merits. A US Airways/Delta merger, a merger that is even more anti-competitive than the proposed United/US Air merger rejected in 2001 by the Department of Justice after 18 months of hearing, is the poster child of the worst kind of merger, and on its merits, should be rejected.

Of course we take seriously our fiduciary duty to maximize the value of our company for our creditors. Some of our work in this area has generated rumors and speculation. One such is that Delta is negotiating with Northwest. Let me be very clear about that—we are not negotiating any such deal with Northwest.

Importantly, the US Airways deal would reverse the hard work and remarkable progress Delta people have made restructuring our

airline. In just 16 short months since filing for Chapter 11, Delta is poised to emerge from bankruptcy this spring, as a strong, fiercely competitive, and stand-alone airline.

Using the bankruptcy process the right way, Delta people have transformed our company's business model, and will soon realize a healthy, financially viable company with the best balance sheet and the lowest cost structure among the network carriers. We've reduced our debt load from \$17 billion to a projected \$7.5 billion. We've eliminated \$2 billion in annual costs. We've generated a sound liquidity position, and our business plan calls for profitability, and we will attain that.

We've right-sized our domestic network, adding more profitable international markets. Delta provides service to 209 domestic and 95 foreign destinations. We have undertaken the largest international expansion in history. We are now the number one U.S. carrier across the Atlantic.

As a real testament to Delta people during this time of upheaval and uncertainty, the company's operating performance and customer satisfaction scores have actually improved, earning Delta the number two spot, barely behind the number one, in the J.D. Powers survey for 2006. As a result of Delta's people's efforts, our company will emerge as a formidable global competitor with an estimated consolidated equity value of between \$9.4 billion and \$12 billion—and, as I noted before, one of the strongest balance sheets in the industry.

So, unlike US Airways' situation before it was acquired by America West, Delta does not need to be acquired to be saved—nothing could be further from the truth. It is clear that what Delta employees have worked and sacrificed together to realize is achievable and well in sight. This is the moment they deserve, and this is the moment US Airways' merger proposal would unfairly and unnecessarily take away from them. Delta people deserve to determine their own destiny.

With me today is Captain Lee Moak, Chairman of the Delta chapter of ALPA, the union representing 6,500 pilots. And, by the way, Delta has called all of the pilots off of its furlough list, so we are—now have grown to—everyone has been offered a position. We also have members of Delta's Board Council, the group representing nearly 40,000 Delta employees, and Cathy Cone, Chairman of Delta's Retiree Committee, representing more than 36,000 retired Delta people and their families. They are steadfastly united in their opposition to the US Airways deal, and let me note that ALPA and the retirees are two of the largest creditors of Delta.

Among the many issues of concern—justifiably worried about, is the estimated 10,000 jobs that will likely be eliminated due to the 10 percent capacity reduction US Airways has said will take place as a result of a merger with Delta. Each has a prepared statement for the Committee, and I would ask that those be included in the record, if that could be done.

Senator ROCKEFELLER. And they will be included.

Mr. GRINSTEIN. Thank you.

The US Airways/Delta merger also must be rejected and opposed because it is blatantly anti-competitive. As the overlapping route chart on the easel here graphically shows—and, by the way, that's

US Airways' chart—Delta and US Airways compete extensively up and down the Eastern Seaboard, and in routes to many western states. They are, in fact, our largest competitor, and I believe we are their largest.

Our hubs are natural competitors, due to their geographic proximity. We jokingly refer to them as the “three twins and the triplets.” My written submission has substantial analysis and data on that, and I won't go into it now at the moment. But, this merger will create a near-monopoly with over 90 percent passenger share in more than 1,500 markets affecting over 8.5 million passengers. And there are nearly 4,000 city markets where 33 million passengers will see a significant reduction in competitive choice. Small communities will certainly suffer.

With less competition, fares will increase. Again, US Airways denies this, but one only has to look at the track record. Since its merger with America West, for every market where US Airways has lowered fares, the average fares increased in four times as many markets. Maybe that's why tens of thousands of people from all 50 states and 105 countries have joined together in the rallying cry, “Keep Delta my Delta.”

This deal is bad for Delta people, bad for the traveling public, and bad for small communities. And this hostile takeover is nothing more than a company's ill-conceived plan to eliminate its principal competitor, and it should be rejected.

Thank you very much, I'm sorry I went over the time.

Senator ROCKEFELLER. Don't be.

[The prepared statement of Mr. Grinstein follows:]

PREPARED STATEMENT OF GERALD GRINSTEIN,  
CHIEF EXECUTIVE OFFICER, DELTA AIR LINES

Mr. Chairman and Members of the Commerce Committee, we appreciate the opportunity to testify today about the potential impact of airline mergers and consolidation. Obviously, the immediate issue of the US Airways hostile takeover attempt is of serious concern to Delta and 104,000 active and retired Delta people—all of whom have participated in this company's remarkable financial turnaround and care deeply about its future. Clearly, if this transaction occurs, the impact on the industry will extend well beyond our airline. We are grateful to the Committee for its vigilance and willingness to examine this proposed take over more closely.

A primary reason for Congress to examine the competitive impact of this deal is that it will trigger broad industry consolidation. Almost every day brings a new media report on potential mergers in the airline industry, most of which are stated openly as direct reactions to US Airways' bid. And if this anti-competitive proposed merger gains approval despite its substantial adverse impacts on competition, consumers, communities, and employees, virtually any other airline merger would likely pass regulatory muster. In our view, the likely outcome of follow-on consolidation would be to leave the combined Delta and US Airways as the weakest carrier, with little West Coast and Asian presence and a staggering debt load.

We believe US Airways' unsolicited and anticompetitive proposal does not meet antitrust standards, and would harm employees, consumers and communities. It would create a much weaker combined carrier that would threaten the future stability of our Nation's air transportation industry. It would reverse the remarkable progress Delta has made. Let me be clear—this is a hostile takeover bid; not a consensual merger.

**1. Delta Is Poised to Emerge From Bankruptcy as a Strong Airline**

Delta has made enormous progress over the past 16 months in transforming the airline into a strong, healthy, and vibrant competitor. In September 2005, faced with unrelenting competitive and economic pressures and a staggering \$17 billion debt load, Delta filed for Chapter 11 protection. While many companies use the bankruptcy process simply to shore up their balance sheet and reduce debt, our

company undertook a top-to-bottom re-engineering that touched every aspect of how we do business. We are using the bankruptcy process appropriately: to improve and strengthen our airline.

As they have throughout this company's 76-year history, Delta people stepped up to these challenges. In every area of our airline, at every level, they participated fully in the long, demanding restructuring process. The result has been a remarkable turnaround with accomplishments that include:

- *Reduced costs and improved unit revenue*, positioning the airline to emerge from Chapter 11 with the lowest unit costs of any network carrier. Delta has improved productivity and eliminated approximately \$2 billion in annual costs.
- *A stronger, more balanced network* as a result of rapid expansion of international routes with the highest profit potential. In the past year Delta has undertaken the largest international expansion in its history, and we are now #1 in the transatlantic market.
- *Significantly reduced net debt* from \$17 billion to an anticipated \$7.5 billion by the end of 2007.
- *Improved liquidity position and profitability*, totaling \$2.7 billion in cash, cash equivalents and short-term investments as of November 30, 2006. Delta will emerge with the strongest balance sheet among network airlines.
- *An expected consolidated equity value on exiting Chapter 11 estimated between \$9.4 billion and \$12 billion*—compared to essentially zero equity value only 16 months ago. US Airways' unsolicited offer clearly recognizes the value Delta people have helped create.

Importantly, customer service standards and operational performance were not sacrificed to achieve these gains. Passenger ratings instead increased, with the prestigious J.D. Power and Associates customer satisfaction survey for 2006 ranking Delta as one of the top two domestic network airlines.

Last month, Delta filed its Plan of Reorganization with the bankruptcy court. We are now poised to exit bankruptcy this spring as one of the best positioned airlines in the country based on financial strength, profit potential, and a cost structure among the lowest of any traditional network carrier. Our global network provides access to more than 300 U.S. destinations and 52 foreign countries. The stage is set for Delta to emerge as a powerful, competitive force to be reckoned with—unless US Airways' takeover bid is allowed to derail our momentum and jeopardize our hard-won gains.

Given Delta's restored financial and competitive strength, this deal is not at all comparable to America West's acquisition of US Airways out of bankruptcy. That purchase was a rescue mission of a failing carrier that was struggling to avoid liquidation.

Compared to our stand-alone plan for reorganization then, the US Airways bid produces inferior value for Delta's stakeholders. US Airways' offer is structurally flawed and raises overwhelming regulatory and labor issues that would weaken Delta going forward. Among the many examples is fleet efficiency. Before filing for bankruptcy, Delta had 14 fleet types. Today, we have eight, all manufactured by Boeing (Exhibit A).

Although US Airways recently raised its bid, which Delta's Board plans to review shortly, management's preliminary reaction is that the revised proposal does not address the serious flaws our analysis identified in the original bid.

So, Delta remains focused on emerging from Chapter 11 this spring. A successful emergence requires a complex and highly coordinated series of events and resources. Timing is crucial, especially since many essential elements such as financing arrangements are outside Delta's control. If US Airways' proposal is not stopped now, the regulatory and bankruptcy review process could take as much as a year, even if it is rejected eventually based on antitrust and anticompetitive grounds. Leaving Delta in bankruptcy limbo creates risks for all stakeholders, including creditors, customers, employees, and vendors—a situation that is simply unnecessary.

Of course, we take seriously our fiduciary duty to maximize the value of our company for our creditors. Some of our work in this area has generated rumors and speculation. One such rumor is that Delta is negotiating a merger or similar deal with Northwest. One point we want to make very clear: We are not negotiating any such deal with Northwest. However, in the face of US Airways' hostile takeover bid, our Official Creditors Committee asked us to help gather information about potential strategic alternatives from other airlines, including Northwest. To that end, we recently retained an investment banker to obtain that information, a far cry from negotiating for a merger. We are compiling this information, but there has not been

any negotiation regarding a merger or similar deal with Northwest or any other airline.

## **2. Delta People Deserve To Determine Their Own Destiny**

When Delta entered Chapter 11, the people of this airline came together and determined to do whatever was necessary to save their company. They worked hard, long hours through months that included first terrible hurricanes in Florida and then the devastation of Katrina. For many at Delta, those crises affected not only their jobs, but also their families, homes and friends. They implemented the transformation of our airline, from restructuring hubs to the largest international expansion in our history. They watched as co-workers and friends left as part of regrettable but necessary job reductions. When the cleaning of aircraft interiors didn't meet their standards, they volunteered their own time on overnight shifts where people from throughout the company showed up to scrape gum off seat bottoms and sweep the jetways. They sacrificed financially, too, from pay cuts to reductions in benefits, from health insurance to vacation time, to the loss of any equity value their years with Delta had earned them.

They tirelessly developed, implemented, and refined the changes required to rebuild the airline's financial position, brand, and customer service—believing all the while they were restoring not only Delta's future, but their own. And by all rights, it should be. The exit from bankruptcy our company is poised to make is what Delta employees have worked and sacrificed together to achieve. This is the moment they deserve. And this is the moment US Airways' merger proposal would unfairly take away from them. From the lost opportunity to share in the benefits of the equity value their blood, sweat and tears have created to the likely loss of an estimated 10,000 Delta jobs, Delta people are understandably and deeply concerned.

As soon as US Airways' hostile takeover bid was made public, Delta employees and retirees erupted in an overwhelming grassroots demonstration of opposition to the proposed merger, followed by an outpouring of support for Delta's plan of reorganization. The Delta Board Council, a group representing Delta employees in various workgroups, quickly produced tens of thousands of buttons, wristbands and T-shirts bearing a "Keep Delta My Delta" message. The result has been a nationwide campaign with a website that has so far collected over 100,000 signatures on petitions opposing the proposed merger, and generated more than 155,000 letters to Capitol Hill.

The Delta unit of the Air Line Pilots Association, which represents our airline's pilots, also has voiced its strenuous opposition. They have stated clearly and publicly that the foundation of the US Airways proposal—including the 10 percent capacity reduction and related job losses—cannot be accomplished consistent with the requirements of the Delta-ALPA collective bargaining agreement. Delta pilot leadership has openly stated its commitment to do everything possible to stop this deal, allocating \$15 million toward that effort.

Delta people are united in their strong opposition to US Airways' proposal, representing as it does the worst possible combination with the most negative impact on virtually all constituencies.

## **3. US Airways' Proposal Fails Absolutely To Meet Antitrust Standards and Would Reduce Competition and Harm Consumers**

US Airways' principle goal in its hostile takeover attempt is to eliminate its key competitor. Delta is the airline with which US Airways' network overlaps most, with the highest number of overlapping markets and hubs. No merger in the history of this industry has ever been approved by the Department of Justice with anywhere near this degree of network redundancy. That's why US Airways believes this will create cost synergies. This merger is being proposed to cut service, shrink hubs and increase prices.

US Airways' proposal to merge with Delta will harm competition. In a pro-competitive merger, the two airlines' routes do not overlap excessively; they are complementary. Joining complementary networks can enhance competition and create consumer benefits that result in lower prices and increased service options. Such mergers can provide benefits to consumers, communities and employees, as well as creditors, shareholders, and other stakeholders.

By contrast, US Airways' proposed takeover of Delta is the poster child of an anti-competitive merger. Delta and US Airways are each other's most direct and pervasive competitors. The combined networks almost totally overlap. If a picture is worth a thousand words, the full story is shown in the map marked (Exhibit B).

The Delta/Western merger in 1987 illustrates a pro-competitive merger, combining two complementary networks with very few overlaps. Delta's network strength in the South and East, joined with Western's network strength in the

West, did not reduce competition. Instead, an expanded network of services provided a platform for growth and significant additional value for customers, communities and stockholders.

The America West/US Airways merger in 2005 arguably could be considered another example of a complementary merger. Combining the two geographically distinct route systems added network strength and scope without reducing competition—an important distinction.

Mr. Chairman, time will tell whether the US Airways/America West merger will be successful or not; it is not yet complete. US Airways has made numerous promises and commitments on jobs, fares, and services, based on their experience in the America West/US Airways combination. But one thing is clear: in terms of size, scope, overlap and competitive redundancy, it is totally absurd to compare that merger to the proposed merger between Delta and US Airways.

#### *Impact on Consumers and Communities*

US Airways and Delta compete directly in thousands of markets up and down the Eastern Seaboard and in many transcontinental markets from western states, to the East, South and Southeast. That's because all of our hubs are in close geographic proximity to US Airways' hubs, as illustrated in (Exhibit C).

- Delta's Atlanta hub competes against US Airways' nearby Charlotte hub.
- Delta's Cincinnati hub competes against US Airways' Pittsburgh hub.
- Delta's JFK hub competes against US Airways' Philadelphia hub.
- Delta's Salt Lake City hub competes against US Airways' hubs at Phoenix and Las Vegas.

Each of these hubs draws traffic from smaller cities, gathering enough passengers to make connecting service to other smaller markets—or to other big markets or even international destinations—sufficiently profitable to continue operating. For example, a customer traveling today between Tallahassee, Florida and Boston can choose a connection through Atlanta on Delta or through Charlotte on US Airways. If a merger were to occur, the merged carrier would significantly down-size service at one or more of the competing hubs—with Charlotte almost certainly losing out in this example.

While US Airways has said no city would be dropped from the combined carrier's network, they also have admitted that the claimed cost synergies of the deal require at least a 10 percent cut in capacity. While we believe this number is understated, even a 10 percent capacity reduction requires elimination of flights and jobs equivalent to about 200 airplanes. Where would those cuts occur? At hubs, most likely leaving only one of the current two or three operating as a major hub, and in communities served by those hubs.

Cuts in competition are expected to:

- Create a near monopoly—more than 90 percent passenger share—in more than 1,500 markets affecting 8.5 million passengers annually.
- Reduce competition on 31 overlapping nonstop markets, impacting more than 11 million annual passengers and creating 12 monopoly markets.
- Significantly reduce the number of competitors in almost 4,000 markets, affecting approximately 33 million customers each year.

US Airways contends that concerns about increased fares and service reductions are unfounded. Their rationale is that so-called low-cost carriers, or LCCs, such as Southwest or AirTran and other airlines will fill any service or competition gaps their proposed merger might create—a speculative claim at best.

The primary loss of competition and service will be in the city pairs currently connected by one-stop service operating over the two airlines' competing, overlapping hubs, as noted earlier. But LCCs are highly unlikely to replace the loss of a competing hub at Charlotte, Pittsburgh, Cincinnati, or Salt Lake City, for two primary reasons.

First, unlike traditional network carriers such as Delta and US Airways, the LCC business model is different from the hub-and-spoke system of gathering travelers from small markets into hubs where they connect to their destination. Instead, these carriers have typically cherry-picked markets with enough passengers to fly non-stop, without connecting through a hub. Since 2000, they have expanded primarily into larger markets with over 7 million annual passengers.

Second, the rapid LCC expansion of recent years has slowed considerably in the face of an airline industry which, in order to survive, has become far more efficient and competitive. As recent reports from JetBlue, AirTran, and others indicate, prof-

its are slowing—and along with them, so are orders for the new jets required to fuel their previous level of growth.

After American acquired TWA in 2001, TWA's major hub at St. Louis, which competed directly with American's hubs at Chicago-O'Hare and Dallas-Ft. Worth, was closed. In the interim years, even during the period when LCCs still were expanding rapidly, no carrier has stepped in to replace the lost hub service.

*Small Communities Will Suffer Significant Loss of Service and Economic Benefits*

The major loser in this proposed takeover is small communities.<sup>1</sup> US Airways' plan is to cut capacity in connecting markets to achieve cost efficiencies. This will be devastating to dozens of small cities because both Delta's and US Airways' networks serve a greater portion of these markets than the other legacy or network carrier. For example, Delta serves 144 small cities.

These two carriers are often the only competitors in these markets, so competition will suffer and consumers will have fewer choices as a result. For example, the combined carrier would operate:

- More than 90 percent of all service at Greenbrier/Lewisburg, Huntington/Ashland, and Charleston, West Virginia;
- 60 percent of all seats at Portland and Bangor, Maine, including more than 90 percent control in 10 markets served from those cities; and
- More than 90 percent of flights at Florence and Hilton Head and 60 percent to 70 percent at Myrtle Beach, Charleston, Columbia; and Greenville/Spartanburg—including more than a 90 percent monopoly in 30 to 40 markets.

A merger between Delta and US Airways would make the combined carrier the largest in 127 small markets, as defined by the Federal Aviation Administration (Exhibit D).

Once again, US Airways' claim that LCCs will fill the void belie the facts. Of the 127 small cities where a combined US Airways/Delta carrier would dominate, only 14 currently are served by LCCs (Exhibit E). Business travelers typically weigh the price differential between their time and higher fares and decide not to drive to airports where LCCs operate when local service is offered.

*Fares Are Unlikely to Fall as Competition Is Reduced*

US Airways also has said that as a "price maverick" and a "price leader," consumers should not be concerned that it would increase fares even if the merger were allowed, despite a new-found domination in thousands of markets. The carrier actually claims to have *reduced* fares since the US Airways/America West merger in 2005.

The facts paint a different picture. US Airways *is* a price leader, but in an upward, not downward direction. In reality, the airline has increased the average price paid by consumers in four times as many markets as it has decreased them. US Airways claims that it has reduced fares in 1,000 cities, but there are nearly 6,600 cities where consumers are paying higher fares than they were before US Airways merger with America West (Exhibit F). These increases were attained through a combination of actual fare increases as well as restrictions placed on the availability of lower fares. Again, it is important to remember that the America West merger, unlike the proposed US Airways/Delta merger, was not about eliminating your primary competitor.

Also, US Airways has given few specifics about how it might reduce capacity by 10 percent while maintaining, much less increasing, current revenues—unless, of course, the combined carrier raises fares. All indications—and all past evidence—point to price increases for consumers should this merger go forward.

**4. US Airways' Proposed Takeover of Delta Would Have Major Adverse Impact on Washington-Reagan National and New York's LaGuardia Airports**

The potential anticompetitive impact of US Airways' takeover attempt also would extend to Washington National and New York-LaGuardia airports. The combined carrier would overwhelmingly dominate at these unique airports with restricted entry due to slot controls imposed by the Federal Aviation Administration and limited gates (Exhibit G). For example:

- At Washington National, a merged US Airways/Delta would operate nearly four times more slots as its next largest competitor, even after divesting one of the

<sup>1</sup>"Small communities" as defined by the FAA are small or non-hub airports.

Shuttles. Contrary to US Airways claims, divestiture of one of the Shuttles won't solve the problem.

- At New York-LaGuardia, the combined carrier would operate almost twice as many slots as the next largest competitor, even after divestiture of one of the Shuttles.
- The two carriers also would control 38 percent of the gates at LaGuardia and 46 percent of the gates at Reagan Washington National.
- Delta and US Airways are currently the only carriers with enough slots to serve small communities from LaGuardia and Washington National. Those services would be reduced, if not eliminated entirely, should US Airways' proposal be allowed to occur because additional slots and gates would have to be divested to meet DOJ approval (if it could be met at all), and the new carriers would not be able to serve those small communities with their smaller portfolios of divestiture obtained slots at those airports (Exhibit H).

##### **5. The Proposed Merger Would Make Delta a Weaker and Less Competitive Carrier**

Despite Delta's massive restructuring and incredible progress since September 2005, our airline will end up as a weaker, less competitive company if US Airways is allowed to proceed with its take-over.

The combined company would have a *staggering debt burden of \$24 billion*—even higher than Delta's debt when it entered Chapter 11—and far higher than the \$7.5 billion projected for an independent, stand-alone Delta, following our exit from bankruptcy this spring. The size of debt does matter in the airline industry. A mountainous debt load like that proposed by US Airways would place the merged US Airways/Delta one crisis away from financial collapse.

The combined carrier would have no significant presence in Asia and the West Coast. It would be competing against carriers with far more extensive global networks. It would be the weakest and least efficient of the major carriers when, not if, follow-on mergers occurred.

A combined carrier would face significant employee integration problems. US Airways is far from completing the labor integration made necessary by its merger with America West. To add more than 45,000 Delta professionals to the mix, all of whom are vehemently opposed to this merger, is a recipe for disaster. The Delta pilots have publicly stated that US Airways' plans for reducing capacity would violate their contract. Dissatisfied Delta people likely will see their hard-earned gains disappear. The traveling public will likely see service and operational performance declines. All of this will disrupt Delta people's lives as well as the service received by the traveling public.

Employee integration would be further complicated by pension issues. Delta and Delta people joined together to minimize cuts to their health programs, and also, with the help of Congress, to preserve the already-earned pension benefits of 91,000 Delta employees and retirees. US Airways, on the other hand, turned all of its employees' pension plans over to the Pension Benefit Guaranty Corporation, or PBGC, with a liability of \$4.8 billion.

Yet another concern in a service industry where employee engagement is crucial would be the pending *reduction of an estimated 10,000 jobs*, though US Airways denies that such job reductions would occur. In reality, the number of employees employed by US Airways/America West at the time of the merger was 43,000—that number has fallen by 8,000 to the current figure of 35,000. The simple fact is that the combined US Airways and Delta will not be able to sustain as many jobs as the two companies do now. Regardless of how the process is defined, eliminating 10 percent capacity across the system, consolidating operations at airport facilities, and consolidating administrative and management staff will lead to significant job reductions, despite US Airways' assertions to the contrary.

##### **Summary**

The central question for this Committee to consider is which is better for consumers, the hundreds of communities served by Delta, and the employees whose blood, sweat and tears have earned them the right to participate in Delta's success, as well as Delta's creditors and other stakeholders?

- To have Delta emerge as a strong, stand-alone competitive force?
- Or to allow US Airways to merge with Delta, by far its largest competitive rival, thus reducing competition in thousands of markets; eliminating service, especially to smaller communities; eliminating 10,000 jobs; and creating an airline with a precariously high debt load?

And also ask, is this what the people of Delta Air Lines deserve for all their hard work?

Clearly, Delta would be much weaker financially and competitively if this take-over bid were to succeed. All Delta stakeholders and the public will benefit from a stand alone, independent Delta.

Again, our company sincerely appreciates the opportunity to submit this testimony to the Committee and we will be happy to answer any questions you might have.

### Merger Combines Two Mismatched Fleets

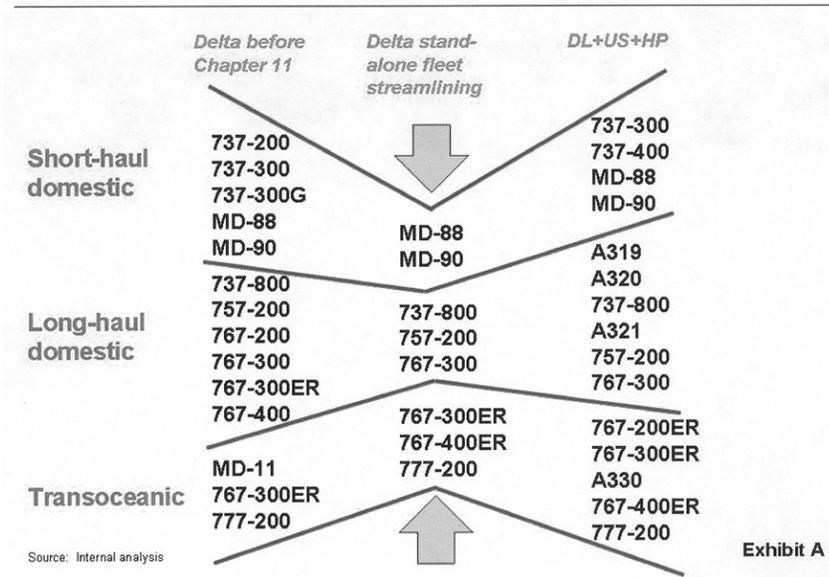
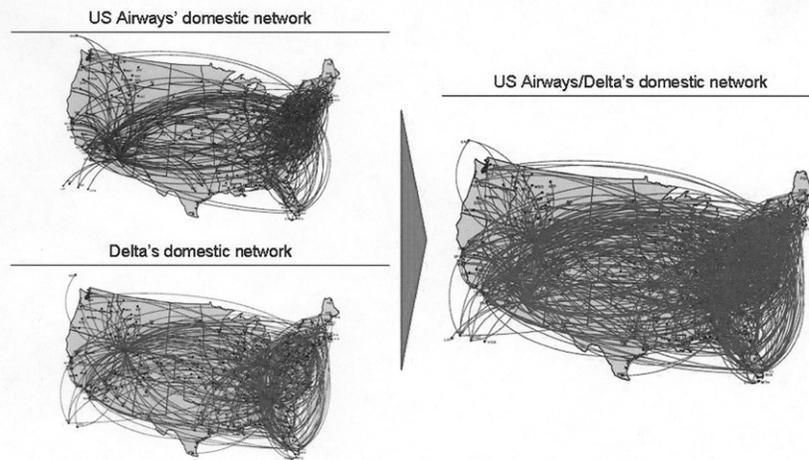


Exhibit A

### US Airways and Delta Have Dramatically Overlapping Networks



Source: US Airways merger proposal

Exhibit B

**In Contrast, the US Airways and Delta Hubs Completely Overlap**  
 Merger of These Networks Would Result in Loss of Competition and Reduced Service

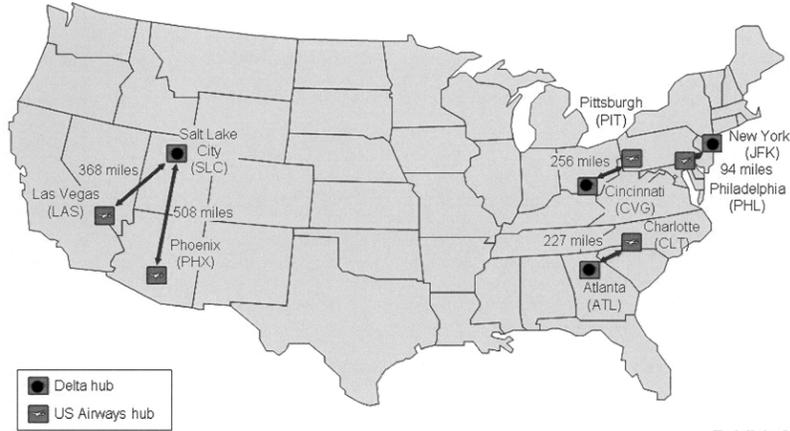


Exhibit C

**US Airways/Delta Would Be the Largest Carrier in 127 Small Communities**

More than Any Other Carrier

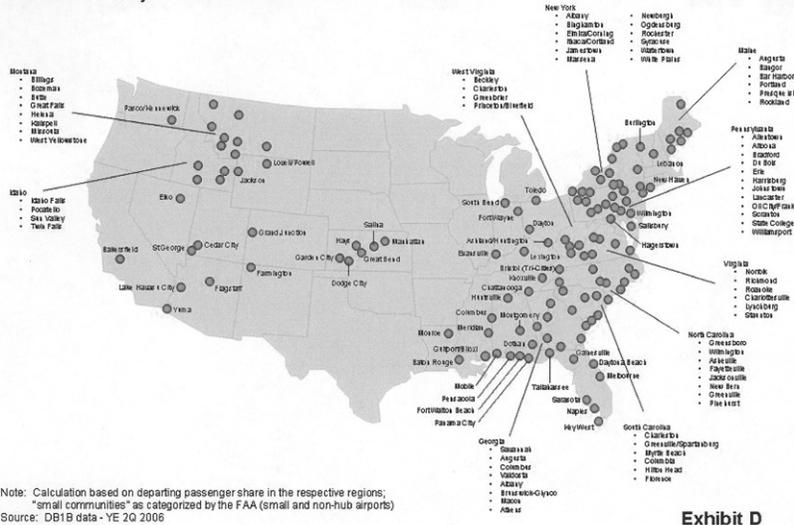
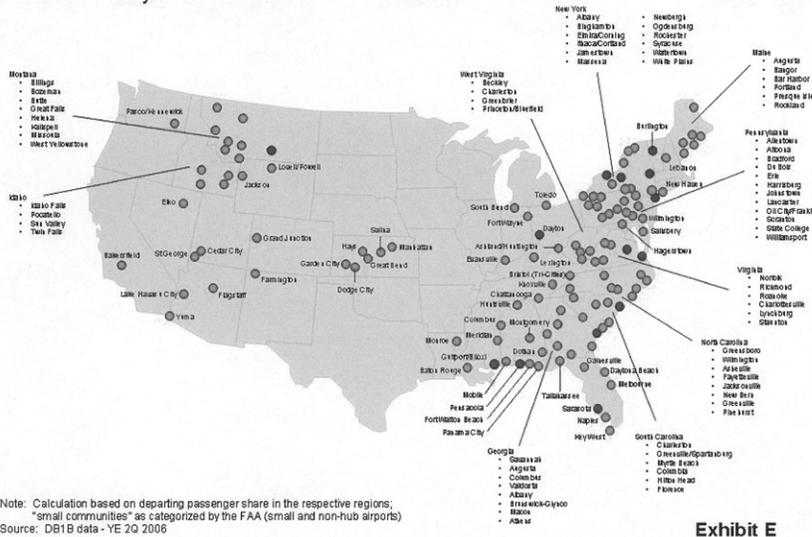


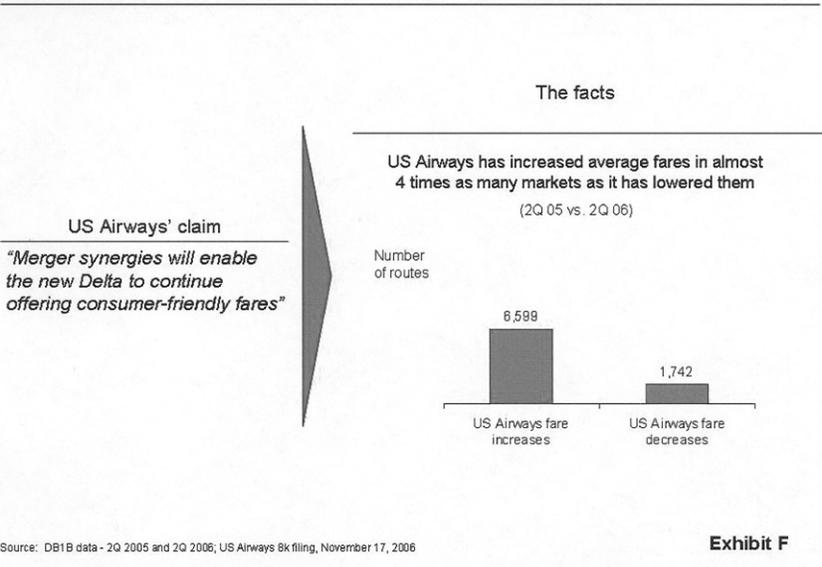
Exhibit D

Note: Calculation based on departing passenger share in the respective regions; "small communities" as categorized by the FAA (small and non-hub airports)  
 Source: DB1B data - YE 2Q 2006

## US Airways/Delta would be the Largest Carrier in 127 Small Communities, only 14 of which have low-cost carrier service More than Any Other Carrier

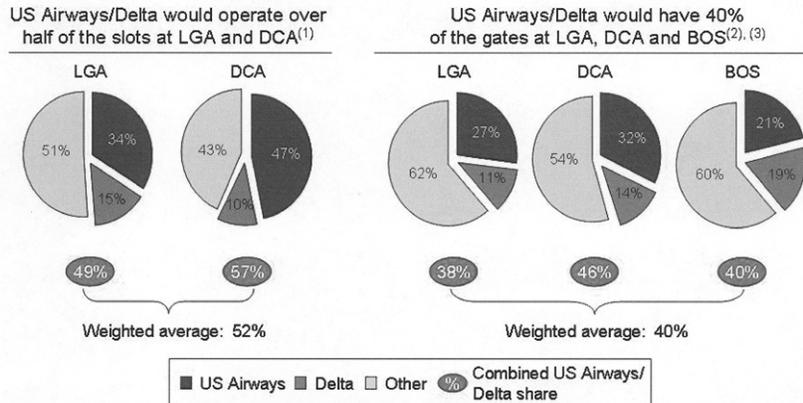


## Since its Merger with America West, US Airways has Raised Fares More than its Competitors



## US Airways and Delta Would Operate 52% of Slots and 40% of Gates at Major East Coast Airports

Even After Shuttle Divestiture



(1) Analysis shows slots operated (and not slots owned) after shuttle divestiture (assuming all divestitures will come out of Delta's current slots)  
 (2) New York-LaGuardia includes Marine Air Terminal; gate counts for mainline gates; off-gate Regional Jet parking positions excluded  
 (3) Assuming all divestitures will come out of Delta's current gates (4 gates at LGA, 2 gates at DCA, and 2 gates at BOS)  
 Note: One slot refers to one arrival or one departure  
 Source: OAG November 2006, snapshot of operating performance, November 17, 2006; FAA

Exhibit G

Senator ROCKEFELLER. Thank you, Mr. Grinstein, very much.

Mr. GRINSTEIN. Thank you.

Senator ROCKEFELLER. And now we call on Mr. Robert Roach, Jr., General Vice President of Transportation, The International Association of Machinists and Aerospace Workers.

### STATEMENT OF ROBERT ROACH, JR., GENERAL VICE PRESIDENT OF TRANSPORTATION, THE INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

Mr. ROACH. Thank you, Mr. Chairman, Mr. Vice Chairman, for the opportunity to speak to you on behalf of the Machinists Union throughout North America.

My name is Robert Roach, Jr., I'm General Vice President of the International Association of Machinists, and I'm appearing on behalf of the International President Robert Thomas Buffenbarger.

The Machinist Union is the largest airline union in North America. We represent more than 100,000 airline employees working in every classification, including flight attendants, ramp service workers, mechanics, and public contact employees. And I've been privileged to come before this Committee on two previous occasions since 9/11, and I thank you for the invitation this week.

The history since 9/11, the last 6 years, have been the most turbulent years in airline history, with bankruptcy after bankruptcy, and employees being forced to take pay cuts, benefits reductions and have lost billions and billions of dollars worth of pensions that were promised to them.

The next step appears to be consolidation. However, consolidation brings with it very difficult tasks—merges, hubs, routes, inte-

gration of aircraft, a maintenance program, you're fixing competition, and consumer pricing are very few of the issues that must be resolved.

The most important issue that must be resolved is the integration of the workforce. That's one of the biggest challenges confronting an airline merger.

The failed US Airways/United merger cost United Airlines hundreds of millions of dollars, which could have been used to avoid bankruptcy, as they assigned over 500 management personnel to work on that particular merger. We had done a study on that particular merger, and we saw that they did not have a plan to integrate the maintenance program, integrate the employees, and we advised them of such, and we opposed that merger. However, we believe that had they not gone down that road for 18 months, that \$500 million would have been in the coffers of United Airlines, maybe our pensions would have been saved, and maybe they would not have gone into bankruptcy.

Another impact on the airline industry was the American Airlines/TWA merger, in which TWA employees were promised jobs at American Airlines. Subsequent to 9/11, the overwhelming majority of those employees are gone—on furlough, or have been forced to retire prematurely. Those employees now, the flight attendants, are losing their recall rights, the flight attendants are losing their recall rights, and will not have any other jobs in the airline industry, and again, the loss of pensions.

The US Airways proposed merger with Delta Air Lines—I've been asked on numerous occasions, Can it work? Will it work? Do you support it? Don't you support it? And my answer's been very clear—it's a very difficult job to merge an airline, and what has to happen, you have to look at the people involved, the management people involved, and do they have the capability to merge an airline?

I say that that question is still open. America West merged with US Airways in 2005. We have yet been able to reach a transition agreement with US Airways management. There is not a maintenance program in place on America West or US Airways. We believe that those things must happen first, before we can consider another merger, into another larger airline.

If we take—if US Airways or Delta Air Lines takes their eye off the ball, then we could have a catastrophe within the airline industry. We have put together a merger team of economists, professionals, lawyers and employee representatives, and we are prepared to sit with US Airways, and Delta and any other airline and evaluate their proposal and see whether that proposal is sufficient.

Today, we believe we are close to an agreement. We are tens of millions of dollars apart. It is disheartening to our members as we are only tens of millions of dollars apart, that billions are being thrown into a merger, without regard to resolving those particular issues. So again, we say that the issue remains unresolved in our minds, however, with an agreement, the transition from America West to US Airways, or *vice versa*, we believe that the possibility exists that we can work together to resolve those issues.

Again, we don't have sufficient information. We believe that that investigation must be very transparent. We must understand the

business plan, we must understand the maintenance program, we must understand what happens to the employees in that particular transaction. And we have the people, and we're prepared to do that in a confidential basis, with our professional people.

We must remember, that in the last 5 years, billions of dollars of pensions have been terminated. The Pension Benefit Guaranty Corporation is now \$18.1 billion in deficit. Many of the airline people that we represented would have lost their pensions, had we not been able to transition them to an IAM multi-employer plan. But others, in other classifications, working at these airlines, do not have any pension today. And any time we think about a merger, or an acquisition of an airline, that must be taken into consideration. And I would ask the Congress, and this Committee, to take that into consideration in their deliberations of any merger transaction.

Again, we must look at the combined indebtedness of the carrier—and again, we will look at that from a professional standpoint, and see, and look at the, this particular map that was up there—put those airlines together, and we have the people. We've been involved in every major transaction, bankruptcy, merger, since deregulation. We have the people in place that can help and assist in that transaction. And if we find it is not going to be a successful venture for the communities that these airlines represent, the people that we represent, and for the flying public, we will oppose it. But, at this point, we don't have sufficient information.

We must also remember, that oil prices—

Senator ROCKEFELLER. Mr. Roach, are you approaching the conclusion?

Mr. ROACH. I'm coming right to the conclusion, right now.

Senator ROCKEFELLER. Thank you.

Mr. ROACH. I don't know how you do that.

We must remember, that oil prices were once \$80 a barrel. It's now down to close to \$50. A well-known oil trader named T. Boone Pickens says we'll see \$100 before we see \$40. We will evaluate that—as President Bush said last night—we have too much of a dependency on foreign oil. So, we have a very significant situation we must evaluate. Again, the door is open, however, we must transition America West in US Airways, before we can transition US Airways into Delta Air Lines.

Thank you for allowing me to speak here, and we're prepared to answer any questions that the Committee may have.

[The prepared statement of Mr. Roach follows:]

PREPARED STATEMENT OF ROBERT ROACH, JR., GENERAL VICE PRESIDENT OF TRANSPORTATION, THE INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

Thank you, Mr. Chairman, and Members of this Committee for the opportunity to speak to you on behalf of airline workers throughout North America. My name is Robert Roach, Jr., General Vice President of Transportation for The International Association of Machinists and Aerospace Workers (IAM). I am appearing today on behalf of International President R. Thomas Buffenbarger. The Machinists Union is the largest airline union in North America. We represent more than 100,000 U.S. airline employees working in almost every classification, including flight attendants, ramp service workers, mechanics, and public contact employees. I have been privileged to come before this Committee on two previous occasions since 9/11, and I thank you for the invitation to speak today.

The last 6 years have been the most tumultuous in the history of the airline industry. The terrorist attacks of 9/11 nearly destroyed the industry, so much so that Congress had to take action, providing grants and loans to ensure its survival. Subsequently, the industry has experienced the loss of over one hundred thousand jobs. Airlines used the bankruptcy process to obtain onerous concessions from their workers. This has led to the outsourcing of jobs, further erosion of earnings, and the destruction of pension plans. Since 2001, 169,000 employees have lost jobs in the industry and 195,500 hard-working employees and retirees saw their nest egg destroyed, their pensions shattered. This has devastated the morale and efficiency of those employees left working. Now that the reaction to 9/11 is behind us and the last two airlines remaining in bankruptcy are expected to emerge in the near future, the stage is set for the next chapter in our saga—industry consolidation.

The merger of two or more air carriers is not a simple process. There are many aspects to be considered in an airline merger; the integration of routes, consolidation of hubs, blending of aircraft and effects on competition and consumer pricing are but some of the many intricacies of a merger. Perhaps the biggest challenge in any merger is the integration of the workforce so that the newly merged carrier's employees can work most efficiently under common conditions. Rumors of a merger prompt endless speculations from industry analysts, insiders and casual observers. Mergers, however, don't fail or succeed on such speculation. Sound business and integration plans are essential if a merger is to be successful.

Carelessly proposing a merger could create such an atmosphere that the carriers involved may be adversely affected. In 2000, United Airlines assigned hundreds of management employees to coordinate its failed merger with US Airways. Instead of focusing on United's operations, tremendous resources were wasted on a merger that had little chance of success. The Machinists objected to the merger because management failed to plan for fair integration of the workforce, the meshing of maintenance programs and to develop stable business projections. Had management at the time listened to the Machinists Union, it would have been quite evident that the proposed United-US Airways merger was DOA. More importantly, it would have saved the company hundreds of millions of dollars that may have been helpful in preventing the subsequent bankruptcy of that airline.

What constitutes a successful merger is debatable. In our opinion, a merger should be judged on its impact on employees, communities and passengers. Employees have been devastated in the past as a result of airline mergers. There must be a qualified management team with the requisite skills to facilitate a smooth integration of work groups from the different airlines. Otherwise, a merger could be disastrous.

When American Airlines purchased TWA out of bankruptcy in 2001, commitments were made to TWA employees. American's then CEO Donald Carty testified before this Committee and said, "We look forward to adding TWA's 20,000 employees to the American Airlines family," and that American was willing to make "commitments to the 20,000 TWA employees and their families that no one else would make." In spite of these assurances, the overwhelming majority of former TWA employees are no longer employed by American Airlines. Thousands of mechanics, ramp workers, customer service agents, flight attendants and pilots who were promised careers with American are no longer working in the industry. Additionally, furloughed former TWA flight attendants are now losing their recall rights for jobs at American.

Communities also often suffer in mergers. American Airlines promised the city of St. Louis that it would maintain TWA's hub operation at Lambert Field. That once bustling hub with over 300 flights per day has now been reduced to less than 100.

When considering the merger of two airlines, it is important to look at how their management has handled past mergers. In 2005, US Airways merged with America West Airlines. As a result of post-2001 restructuring, employees at both airlines suffered tremendous hardships. Since 9/11, US Airways' employees have been forced to endure two separate bankruptcies and three consecutive reductions in their wages and benefits.

US Airways has not yet negotiated a transition agreement with the Machinists Union that would merge the mechanic and related workforces of the two airlines. The failure to reach an agreement means the maintenance programs at America West and US Airways have yet to be integrated. Nor has the fleet service operation at the combined carrier been integrated. The failure to merge the groups has resulted in employees at the same airport doing the same job, but working under different work rules and receiving dissimilar wages and benefits. In our opinion, that is a very inefficient way to operate an airline, especially in today's cost conscious environment. This is clearly a recipe for turmoil.

In the midst of an incomplete merger, US Airways has now made a \$10 billion bid for Delta Air Lines. The financial sacrifices of US Airways' employees are what put the airline in a position to make such a proposal. The employees' issues must be addressed at the bargaining table before US Airways can merge with any other airlines.

Proposed mergers must further be scrutinized to ensure that employees' hard earned nest eggs—their pensions—are preserved. The Machinists Union has members at US Airways, United Airlines, Aloha Airlines, British Airways, and Air Micronesia who still have a defined benefit pension plan, the multi-employer IAM National Pension Plan. Our members at Northwest Airlines will participate in the same pension plan when that carrier emerges from bankruptcy. IAM-represented Continental Airlines flight attendants are currently voting to join the secure IAM National Pension Plan. Although the IAM has been successful in negotiating new pensions for our members, many other airline employees have lost the advantages of a defined benefit pension plan. At a time when airline-sponsored pension plans have either been terminated or underfunded, preserving existing pension plans, and extending benefits to employees without pensions, is a priority for the IAM.

We recommend that this Committee consider whether any merger could result in the termination of pension plans. The terminated plans would become the burden of the Pension Benefit Guaranty Corporation, which currently has an \$18.1 billion deficit. Ultimately, many of the workers affected by pension terminations will become the responsibility of the Federal and State governments.

The Machinists formed a Transportation Merger Team to protect the interests of IAM members affected by airline mergers. Comprised of employee representatives, attorneys, economists and research specialists, our team is prepared for any potential industry consolidation. We are also prepared to evaluate any proposed merger and determine whether it would serve the interests of our members, an airline's most important asset, and the interests of the flying public. For this to occur we need a transparent process that allows for information sharing. This can be accomplished while respecting the airlines' need for confidentiality. Once US Airways resolves its issues with integrating employees from its last merger, our team of professionals is prepared to work with US Airways and any potential merger partners to evaluate future mergers. We know that when airlines are in trouble, the first people they look to for help are their employees. Let airlines demonstrate beforehand that the merger they are proposing will not have additional adverse effects on loyal employees.

There are numerous media reports of alleged merger talks between a number of carriers. United is rumored to be talking with Continental, Northwest with Delta, Continental with Northwest, United with Delta. A very significant question must be asked of any merger, "What happens if oil goes back to \$80.00 a barrel? Can these combined entities, with enormously increased debt, survive?" T. Boone Pickens, a well-known and successful oil trader, has publicly stated we will see \$100.00 per barrel before we see \$40.00 per barrel. Can a merged carrier survive under those circumstances?

Therefore, we will look at any proposed merger with those factors in mind. We urge this Committee to utilize similar criteria in evaluating whether any airline merger will be successful.

Mergers have been a part of the airline industry since its inception; however, airline consolidations are fraught with difficulties. The Machinists Union has been involved in nearly every airline merger since airline deregulation. We are prepared to protect the interests of all affected workers by working with airline management and the appropriate government bodies to avoid the pitfalls of previous mergers. To do so, we need: (1) proper information, (2) a transparent process, and (3) a management team that demonstrates an ability to work with its employees. Without such a process, we will be left with no choice but to openly oppose any merger that we determine to not be in the best interests of working people and their families, the flying public, and the airlines themselves. On behalf of the more than 100,000 airline workers who are members of the IAM, I implore you to work with the Machinists and other airline unions to ensure employees are not adversely affected by any airline mergers.

We are aware that some of the mergers being contemplated would have included greater foreign investment and control than is currently allowed. I thank Congress and especially this Committee for its work to stop the crusade to allow greater foreign control of U.S. airlines. I also thank the Committee for the opportunity to speak with you today. I am happy to answer any questions.

Senator ROCKEFELLER. Thank you, Mr. Roach, very much.

And now we call upon Dr. Mark Cooper, Director of Research, Consumer Federation of America.

**STATEMENT OF DR. MARK N. COOPER, DIRECTOR OF RESEARCH, CONSUMER FEDERATION OF AMERICA; ON BEHALF OF CONSUMER FEDERATION OF AMERICA AND CONSUMERS UNION**

Dr. COOPER. Thank you, Mr. Chairman, Mr. Vice Chairman, members of the Committee. I greatly appreciate the opportunity to appear before you today to present the consumer view on the current state of the airline industry, and the impact of some pending mergers that are on the table, and being discussed. I will offer the views of the Consumer Federation of America, and Consumer's Union.

If mergers like the US Air hostile takeover of Delta are necessary to save the airline industry, then Congress must confront the fundamental failure of the unregulated airline market, to meet consumers' needs, and protect the public in half the country. If these mergers go forward, this Nation will be divided between major urban areas, primarily on the coast, where consumers have a number of choices, and a modest level of competition, and the rest of the country, where small cities and rural areas have little—if any—service, and even mid-sized cities are the captives of virtual monopolies in fortress hubs.

The so-called low-cost airlines have not entered those markets, and would leave half the country unserved. The fiction of competition as the primary means of consumer protection, and industrial organization, will have to be abandoned, if these mergers between large legacy carriers go forward.

Looking back at theories of low-cost entrance, economies of scale, and cost savings synergies, ignores fundamental changes that have taken place in the industry, and the current structural condition in the industry. In the past several years, competition from low-cost entrants has not disciplined dozens of price increases. Low-cost entrants have not entered these markets—they cherry-pick high-volume routes. Capacity has been shed, and costs have been slashed by the legacy carriers. So the claim that entry by low-cost carriers would discipline prices, and protect the public, has lost its teeth. It was a great theory before the last half-decade. It doesn't work anymore.

Once this facade is stripped away, one cannot ignore the likely and obvious impacts of these mergers. Reduced service, eliminate choice, and price increases. We have not opposed every merger that comes down the runway. Certainly not geographic extension mergers, like US Air/America West. But, we urge you to send a strong message to the airlines and the antitrust authorities, that mergers which move thousands of routes to monopoly, duopoly or triopoly status, are not acceptable.

The antitrust authorities do not have responsibility for the overall structure of the industry—you do. The antitrust officials can only attempt to promote and preserve competition, but if there is not enough competition, there is not an awful lot they can do about it, especially when they are concerned about financial stability.

It is the Congress that has the obligation to protect the large numbers of consumers, who will not be protected by effective competition. To have a world-class economy in the 21st century, we must have a world-class airline sector, that serves the entire continent—this vast continent.

As I testified on September 20 before the Congress, just a few short days after the horrible events of 9/11—air travel is infrastructure in the 21st century. These mergers, this hearing, are a wake-up call. We must have a public policy that balances the goals of efficiency, and financial stability, with a need to serve the public—all of the public—and protect consumers—all consumers—not just half the consumers who will be lucky enough to have the benefits of competition.

I commend you for holding this hearing, and look forward to working with you on this very difficult and important set of issues. We've emerged from a very, very dark period in this industry, and it's really time for public policy to make sure we get the airline sector that this Nation needs.

Thank you.

[The prepared statement of Dr. Cooper follows:]

PREPARED STATEMENT OF DR. MARK N. COOPER, DIRECTOR OF RESEARCH, CONSUMER FEDERATION OF AMERICA; ON BEHALF OF CONSUMER FEDERATION OF AMERICA AND CONSUMERS UNION

Mr. Chairman and Members of the Committee,

My name is Dr. Mark N. Cooper. I am Director of Research of the Consumer Federation of America. I appreciate the opportunity to address the issue of mergers in the airline industry. I appear before you today on behalf of the Consumer Federation of America<sup>1</sup> and Consumers Union<sup>2</sup> to express our deep concern about the pending merger wave in the airline industry.

In June 2000 testimony on "The Proposed United Airlines/US Air Merger" before the Senate Antitrust Committee, I opened my testimony with the following observation:

There are some mergers to which policymakers and the Department of Justice should just say "no!" This is one of them. This merger would reduce competition in an industry that already suffers from a general lack of competition. It would trigger a round of mergers that would leave consumers with fewer and fewer choices across the Nation. New airlines would find it harder and harder to enter these more concentrated, integrated markets that would result.

There was a time when airline problems were largely problems for business travelers, but that has changed. The rapid growth of personal income over the past decade has made air travel much more common among residential consumers, in spite of sharply rising ticket prices. As a result, consumer groups such as CFA have become more and more concerned about the failures of the

<sup>1</sup>The Consumer Federation of America is the Nation's largest consumer advocacy group, composed of over 280 state and local affiliates representing consumer, senior citizen, low-income, labor, farm, public power and cooperative organizations, with more than 50 million individual members.

<sup>2</sup>Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the State of New York to provide consumers with information, education and counsel about good, services, health and personal finance, and to initiate and cooperate with individual and group efforts to maintain and enhance the quality of life for consumers. Consumers Union's income is solely derived from the sale of *Consumer Reports*, its other publications and from non-commercial contributions, grants and fees. In addition to reports on Consumers Union's own product testing, *Consumer Reports* with more than 5 million paid circulation, regularly, carries articles on health, product safety, marketplace economics and legislative, judicial and regulatory actions which affect consumer welfare. Consumers Union's publications carry no advertising and receive no commercial support.

airline market—poor service and the abuse of market power in a highly concentrated industry.<sup>3</sup>

In March of 2001, we were confronted with a merger wave; I expressed consumer concern about the emerging industry structure at a hearing in the House of Representatives as follows:

With two mergers pending between major airlines and a third being widely talked about, there can be no more uncertainty about the structure of the industry. The airline industry is in the process of organizing itself into a private cartel. Two or three dominant firms will control the vast majority of traffic through monopoly airports in fortress regions embedded in national networks that rarely compete with one another.<sup>4</sup>

Exactly 6 months later, testifying a few days after the events of September 11, 2001, I again urged the Congress not to forget the consumer in writing public policy to deal with the airline industry.

In addition to ensuring a more secure air travel network, it is absolutely appropriate for Congress to require fairer competition, better service and more effective consumer protection in exchange for assistance to commercial operators. The airline industry was falling seriously short in these crucial areas before the attack.<sup>5</sup>

The mergers that are on the table today, such as the Delta-US AIR merger or those that are being contemplated trigger all of our concerns, and are actually worse from the competition and consumer point of view than the United/US Air merger that we opposed in 2000.<sup>6</sup> I again urge the Congress to keep the consumer interest front and center when it examines these mergers.

We have not opposed every airline merger that comes down the runway. The US Air-America West merger was generally a geographic extension merger with little overlap in route, which we did not oppose, although it has had some anti-competitive effects. However, we do oppose mergers that have significant anti-competitive effects and there can be little doubt that the mergers on the table will have severely anti-competitive<sup>7</sup> and anti-consumer<sup>8</sup> effects. The industry has repeatedly claimed

<sup>3</sup>Testimony of Dr. Mark Cooper, Director of Research on “The Proposed United Airlines/US Airways Merger,” *Antitrust Committee, U.S. Senate*, June 14, 2000, p. 1.

<sup>4</sup>Statement of Dr. Mark Cooper, Director of Research, Consumer Federation of America, “Mergers Between Major Airlines: the Anti-competitive and Anti-Consumer Effects of the Creation of a Private Cartel,” *Subcommittee on Commerce, Trade and Consumer Protection, Committee on Energy and Commerce, U.S. House of Representatives*, March 21, 2001.

<sup>5</sup>Statement of Dr. Mark Cooper, Director of Research, Consumer Federation of America on “The Financial Status of the Airline Industry,” *Committee on Commerce, Science and Transportation, U.S. Senate*, September 20, 2001, p. 2.

<sup>6</sup>Justin Bachman, “Airline Mergers: Ready for Takeoff?” *BusinessWeek.com*, December 22, 2006: Delta contends that such a behemoth would never pass regulatory muster and has assembled a detailed power point scenario of job cuts, reduced flights, hub domination, and higher fares that would make almost any consumer advocate cringe. Dave Carpenter, “Airline-Merger Talks: How Will Fliers Fare?” *Associated Press*, December 14, 2006: Despite numerous recent fare increases, however, ticket prices are still too low for airlines’ liking as they scramble to boost profits in the face of soaring jet-fuel prices. The industry’s solution? Reduce the number of available seats by gobbling each other up. A wave of U.S. airline mergers could mean higher prices for travelers as overlapping routes are eliminated, experts said Wednesday as discussions between United Airlines and Continental Airlines coincided with an announcement by AirTran of plans to buy Midwest. And just last month US Airways began a hostile bid for Delta Air Lines. W. Schoen, “Airline Mergers Won’t Help Passengers: Travelers Face Packed Planes, Higher Fares as Industry Consolidates,” *MSNBC*, December 14, 2006: Though it’s far from certain that any of these deals will go through, such mergers would likely give the remaining carriers more clout in raising fares, according to Jerome Chandler, a contributing editor to *Frequent Flyer* magazine. “It’s Economics 101,” he said. “If you have fewer players in the industry, you are going to have higher fares. It’s almost inevitable. Mergers are about what’s good for the airlines—not necessarily what’s good for consumers.”

<sup>7</sup>Jeff Bailey, “Big Consolidated Airline Inc.: A Wave of Merger Deals May Increase Profits, Fares and the Crowding of Flights,” *The New York Times*, December 14, 2006, C-1: Mr. Leonard (Chief Executive of AirTran) may relish his role as underdog but that is not why he hopes the carriers (Delta and US Airways) merge—he just wants to see fewer jets in the sky. After all, US Airways’ proposed takeover would reduce the two airlines combined jet fleet about 10 percent. That, in turn, would allow the merged Delta—and AirTran—to raise fares on many routes, significantly increasing profits.

<sup>8</sup>Brad Foss, “Airline Mergers Could Raise Fares in 2007,” *KiplingerForecasts.com*: Kevin Mitchell, however, said ticket prices would rise significantly and the public can expect service disruptions, repercussions from labor strife and more job insecurity in the airline industry if the

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that anticompetitive mergers are crucial to the viability of the industry, but that has not generally been the case. The effect over time is to leave the consumer with less competition and an industry that is no healthier.

We have had a hiatus in consolidation in the industry in the past half decade, as the industry restructured,<sup>9</sup> but that does not change the fundamental concerns about anti-consumer and anti-competitive effects of mergers in this industry. The elimination of competition and the reinforcement of dominant fortress hubs inevitably raise concerns about rising prices. Competitive entry in the industry, to the extent it can discipline the abuse of market power, is highly restricted, limited to selective, high volume routes and markets. The so-called low-cost airlines would leave more than half the country unserved.

As travelers fall under the control of one airline, the ability of new entrants to crack markets is reduced. It becomes harder and harder to attract passengers to flight segments and the necessary scale of entry gets larger and larger. The inconvenience, and in many cases, the impossibility of inter-airline travel, give the airline enhanced market power over the traveler. Travelers thus suffer the typical effects of the abuse of market power—fewer choices, higher prices and lower quality. Low-cost airlines selectively enter the high volume routes, leaving much of the country with little competition. The past history of mergers suggests that consumers will end up with higher prices, less service and the industry will remain in turmoil.

The fact that the industry goes through wild boom and bust cycles is not a justification for letting down our guard against the abuse of market power. At a minimum, the boom and bust cycles create cycles of uneven service; at a maximum, it strands consumers. Having gone through a series of bankruptcies and a large loan guarantee program to bail the industry out, we are faced with a massive consolidation and Congress must ask where is the public interest in all this? How will the consumer be served?

Backward looking analyses based on pre-2000 industry behavior that claim the so-called low-cost airlines will discipline price increases are misguided. Looking in the rear view mirror, such analyses ignore the fundamental shifts in the industry that suggest low-cost entrants simply will not restrain price increases on the many routes that lack sufficient competition today and would have competition further reduced by these mergers.

- Low-cost carriers have not entered these lower volume routes. They are highly selective in the routes they enter. The characteristics of those routes that have led them to stay away are not likely to change sufficiently to induce entry.<sup>10</sup>
- Notwithstanding the expansion of low-cost carriers, total capacity in the industry is down by about 15 percent.<sup>11</sup>
- There has been a long series of price increases over the past 2 years that the low-cost airlines have failed to discipline.<sup>12</sup>
- Industry-wide prices have flattened or been rising, so the industry-wide price disciplining power of the low-cost carriers is doubtful.<sup>13</sup>

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carriers merge. He said that if all the deals in discussion come about, there will effectively be three fewer U.S. network airlines in operations. I would view it, if I'm a business traveler, on the customer service side as many years of unimaginable pain."

<sup>9</sup>W. Schoen, "Airline Mergers Won't Help Passengers: Travelers Face Packed Planes, Higher Fares as Industry Consolidates," *MSNBC*, December 14, 2006. "We've had about 15 percent of the industry's capacity come out of the market," from the peak of 2001 to the trough this year, said airline analyst Helane Becker. "And there's still another 5 or 6 percent that could come out." Justin Bachman, "Airline Mergers: Ready for Takeoff?" *BusinessWeek.com*, December 22, 2006: After a 4-year struggle to survive billions in losses, the industry has finally gained a little breathing room, thanks to fundamental restructurings and somewhat higher fares. That, in turn, has more than one airline executive mulling long-term structural fixes—and less competition via consolidation might just fit the bill.

<sup>10</sup>Jason Paur, "Small Airlines Fly Under The Merger Radar," *Marketplace*, December 19, 2006. Big carriers operate on the hub-and-spoke model and are looking to merge with a similar operation to complement their existing routes. Smaller carriers aren't appealing because they just don't fly to enough places.

<sup>11</sup>W. Schoen, "Airline Mergers Won't Help Passengers: Travelers Face Packed Planes, Higher Fares as Industry Consolidates," *MSNBC*, December 14, 2006. "We've had about 15 percent of the industry's capacity come out of the market," from the peak of 2001 to the trough this year, said airline analyst Helane Becker. "And there's still another 5 or 6 percent that could come out."

<sup>12</sup>Dan Schlossberg, "Airline Merger Mania, Bad News for Consumers," *ConsumerAffairs.com*, December 29, 2006. The impact on consumers—already reeling from 23 hikes in airline ticket prices over the last 2 years—could be devastating. After all, less competition means fewer choices for budget conscious flyers.

<sup>13</sup>Jeff Bailey, "Big Consolidated Airline Inc.: A Wave of Merger Deals May Increase Profits, Fares and the Crowding of Flights," *The New York Times*, December 14, 2006, C-4, graph.

- The so-called legacy carriers have substantially modified their cost structures, so the claim of bloat has lost its credibility.<sup>14</sup>

Backward looking analyses of previous mergers do not lay our concerns to rest either, for two reasons:

- First, the underlying motivations for past mergers differs from those being contemplated today. The economic rationales offered had a more plausible basis to claim they would be consumer friendly, even though they have not worked out that way.<sup>15</sup>
- Second, even with these more benign justifications, the history of past mergers is far from encouraging.<sup>16</sup>

Antitrust analysis recognizes that the failing firm defense will allow apparently anticompetitive mergers to go forward when they would not usually pass muster. However, this defense is valid only in the context of an industry that is otherwise competitive and exhibits a healthy competitive structure. That is not the case within the airline industry.

This is an infrastructure industry of vital importance to the Nation and there is serious doubt that the current approach to industrial organization can provide the full, nationwide service that a continental, world class economy needs. Policymakers face a fundamental challenge. If these mergers go forward under the claim that they are necessary to save the industry, then the basic premises of the approach to public policy must be questioned because the fiction of competition can no longer be maintained for a large part of the Nation.

This Committee does not review mergers, but it has the ultimate responsibility for the public policy that deeply affects the industrial organization of the industry. I urge you to send a strong signal that if the industry tries to go down the path of massive consolidation it will find a Congress ready, willing, and able to prevent the abuse of consumers that inevitably follows from such a concentrated market.

The assumption that markets are the best way to organize an industry is just that, an assumption. The assumption must be rebuttable, if economics is to be an empirical science. Policymakers must accept that sometimes there are market failures and take the appropriate actions to ameliorate the problem.<sup>17</sup> In the airline industry, with its boom and bust cycles, its fits and starts of competition, and fortress hubs, where half the markets are competitive and half are captive monopolies a potential merger wave demands close scrutiny.

There are a range of policies that could be pursued.

First, if the Congress wants to stick to the market model, it must urge regulatory authorities to just say no to those mergers that are anticompetitive. Certainly, the US Air-Delta and United-Continental mergers fit the bill. Close analysis of route

<sup>14</sup>Justin Bachman, "Airline Mergers: Ready for Takeoff?," *BusinessWeek.com*, December 22, 2006. After a 4-year struggle to survive billions in losses, the industry has finally gained a little breathing room, thanks to fundamental restructurings and somewhat higher fares. That, in turn, has more than one airline executive mulling long-term structural fixes—and less competition via consolidation might just fit the bill. Brad Foss, "Airline Mergers Could Raise Fares in 2007," *KiplingerForecasts.com*. After several years of financial darkness, U.S. airlines are seeing rays of hope. Passenger demand is stronger and costs are under control.

<sup>15</sup>Ed Perkins, "Are Airline Mergers Good or Bad for Consumers?," *Smarter Travel*, November 30, 2006: One overriding fact governs the outcome: The Incentive for the merger is almost solely to reduce competition. In the past, airlines have merged for three basic reasons: (1) The earliest focused mainly on extended geographic scope, such as Delta with Western, US Airways with PSA, American with Reno, and even the recent America West with US Airways; (2) A few prior mergers were designed to rescue a failing line, such as American with TWA; and (3) Some of the earlier mergers were designed to take advantage of the economics so scale, such as the consolidation of several smaller lines into Hughes Airwest. But even the industry now admits that future mergers among mega-carriers will be aimed almost solely at reducing competition. They're already so big that extra size doesn't help lower costs, and they already cover most of the Nation. But reduced competition would likely produce many rewards, allowing the remaining airlines to hike rates—and probably reduce service levels—even further. Also, mergers would probably involve the shutting down of several adjacent "hubs," where local travelers would see substantial reductions in service.

<sup>16</sup>Jerry Chandler, "Airline Mergers? Not So Fast," *Cheap Flights Limited*, December 15, 2006: Of the six major mergers I just touched on, four essentially failed to live up to their purported promise—US Air/Piedmont, US Air/PSA, Northwest/Republic, and Pan Am/National. A fifth, American/TWA, resulted in the downsizing of St. Louis. Only Delta/Western really worked for airlines and airline passengers alike. No, past history doesn't dictate present success.

<sup>17</sup>Marilyn Geewax, "Key Legislator Says Airline Mergers Threaten Competition," *Cox News Service*, December 15, 2006, p. 1: With six U.S. airlines now involved in merger discussions, the trend "runs afoul of the very purpose of deregulation," incoming House Transportation Committee Chairman James Oberstar, D-MN, told reporters.

overlap and hub proximity suggests that these mergers will have substantial anti-competitive effects that will be impossible to ameliorate with traditional antitrust remedies.<sup>18</sup>

Traditional antitrust remedies for the anticompetitive effects of mergers are not likely to be effective in these cases. The spin-off of some assets to repair the competitive harms in the markets would occur in city-pairs that are already insufficiently competitive. They have not experienced competitive entry and it is difficult to see how the spin-off will result in sustained competition if these mergers are approved. Consumers would suffer severe price increases before entry might occur.<sup>19</sup>

The antitrust authorities will also have to micro-manage the gates and slots at regional hubs where the merger eliminates competition to ensure that they result in sustained competition on a large number of routes. If not, consumers would be left with reduced competition and declining service, but this is an approach the antitrust authorities hesitate to take and generally refuse to engage in for the long term.

Broader policies to protect consumers in an industry where competition is weakened generally fall outside of the purview of the anti-trust authorities.<sup>20</sup> Occasionally, an antitrust consent decree will set prices for a short period of time, although that is frequently for inputs in a vertically integrated production chain, not retail prices to the public.

Merger waves start with one deal and the antitrust authorities tend not to take a broad view of the wave.<sup>21</sup> They simply cannot see the forest for the trees. It is the Congress that must take the broad view and recognize that when it comes to competition, a forest with too few trees is very bad for consumers. The best way to stop the wave is to stop the first merger, which would be Delta-US Air in this case, particularly when it has such pervasive anticompetitive effects.

In sum, the antitrust authorities cannot approve mergers, like Delta-US Air or similar mergers and pretend that competition will protect consumers in the large number of markets that are presently inadequately competitive and in which competition will be further reduced. If antitrust authorities conclude that consolidation is necessary to restore the financial health of the industry, then they, along with the Congress, must give up the fiction of market competition as the primary ap-

<sup>18</sup> Brad Foss, "Airline Mergers Could Raise Fares in 2007," *KiplingerForecasts.com*: Regulators could look at the combined airlines added strength in the Northeast as detrimental to competition, with Continental's Newark hub and United's at Washington-Dulles. Marilyn Geewax, "Key Legislator Says Airline Mergers Threaten Competition," *Cox News Service*, December 15, 2006, p. 2: For example, Delta and US Airways have many overlapping routes along the East Coast, with hubs in Atlanta and Charlotte, NC. Justin Bachman, "Airline Mergers: Ready for Take-off?," *BusinessWeek.com*, December 22, 2006: Delta contends that such a behemoth would never pass regulatory muster and has assembled a detailed PowerPoint scenario of job cuts, reduced flights, hub domination, and higher fares that would make almost any consumer advocate cringe.

<sup>19</sup> Ed Perkins, "Are Airline Mergers Good or Bad for Consumers?," *Smarter Travel*, November 30, 2006: Not all air travelers, however, will feel the pinch equally. On many of the Nation's busiest routes, low-fare lines such as AirTran, JetBlue, and Southwest will continue to set the ceiling on fares, even the largest old-time airline can't raise fares much. Travelers on those routes will probably see little effect. But travelers to or from smaller cities, where no low-fare line flies, are likely to get stung, big time. If US Airways acquires Delta, travelers in the Southeast are particularly likely to be gouged.

<sup>20</sup> Ed Perkins, "Are Airline Mergers Good or Bad for Consumers?," *Smarter Travel*, November 30, 2006: When it approves big airline mergers, the government often imposes conditions to protect at least some level of competition . . . In my view, however, it is time for a different government focus. Route adjustments are no longer as important as the once were. Instead, I'd like to see regulators accept the inevitability of reduced competition and require merged airlines to provide other offsetting benefits. Among the possibilities: (1) Increased compensation for involuntary bumping. (2) Expanded definition of bumping to include factors other than overbooking. (3) Compensation for delayed baggage delivery. (4) Guaranteed levels of seats for frequent flyers.

<sup>21</sup> Jeff Bailey, "Big Consolidated Airline Inc.: A Wave of Merger Deals May Increase Profits, Fares and the Crowding of Flights," *The New York Times*, December 14, 2006, C-1: Discussions about a possible deal between United Airlines and Continental Airlines came to light this week. And if one big merger goes through, other airlines will probably feel compelled to pair off as well or wind up at a competitive disadvantage because they have higher costs or smaller route networks. Marilyn Geewax, "Key Legislator Says Airline Mergers Threaten Competition," *Cox News Service*, December 15, 2006, p. 1: The merger wave was launched last month when US Airways Group, Inc. made an unsolicited bid, now worth \$8 billion, for Delta Air Lines, Inc. This week, UAL Corp., parent of United Airlines, and Continental Airlines, Inc., announced they are holding talks on a possible merger. In addition, AirTran Holdings Inc. has offered to buy Midwest Air Groups, Inc. for about \$290 million. Brad Foss, "Airline Mergers Could Raise Fares in 2007," *KiplingerForecasts.com*: Analysts say other potential deal permutations that may be explored—if they haven't already—include AMR Corp's American Airlines linking up with Northwest Airlines Corp.

proach to industrial organization for the airline industry. They must provide consumers with much greater non-market protections against the abuse of the market power that will inevitably result from a merger wave in this industry.

Senator ROCKEFELLER. Thank you very much, Dr. Cooper.

I now call upon the Chairman of the full Committee, or Vice Chairman of the full Committee, as he prefers to be called, for the first round of questions.

The CHAIRMAN. Thank you very much, Mr. Chairman.

Secretary Steinberg, you've just heard Dr. Cooper's testimony. Do you believe that his concerns are valid?

Mr. STEINBERG. Thank you, Mr. Chairman.

Any time there's consolidation, we have to look at the effects on consumers. I think it's hard to generalize about any specific—generalize about whether mergers are “bad” or “good” for consumers. It's highly dependent on the specifics of a transaction.

In general, I would say that, that healthy network carriers that earn adequate profits are actually good for smaller communities, and good for consumers, because they can afford the breadth and scope of service that we want to deliver.

In any situation in which there's excess concentration, obviously we have to be careful of prices going up. But, I think what we've seen over the years is an intensely competitive industry, characterized by many carriers. And today we have six network carriers, and we have several low-cost carriers.

And, in fact, the most successful carrier by, really, any measure, is not the largest, at all. And that's Southwest Airlines. So, it's very hard to generalize that a merger, *per se*, will lead to harm to consumers.

We do think there are execution risks in mergers, that can result in bad business combinations. But, the role of government, obviously, is to protect consumers, by focusing on ease of entry into markets, and the ability of the marketplace to support competition.

The CHAIRMAN. Can you assume that it will result in fewer choices? Higher prices for consumers?

Mr. STEINBERG. Again, Mr. Chairman, I think it really depends on the nature of the transaction. Certainly, in the short term, any merger results—by definition—in fewer choices. But, what we've seen over the years is a tendency of the marketplace to respond. And new carriers can come in and lower prices.

And that's not to say that we're proposing mergers, as a way to “save” the industry. Quite to the contrary. We're just saying the marketplace should be allowed to operate.

The CHAIRMAN. Mr. Grinstein, do you believe that Dr. Cooper's concerns are valid?

Mr. GRINSTEIN. I do. I think that they're valid because this industry—I'm a slow learner—because this industry has improved itself dramatically in the last 2 or 3 years, and I think that point is well taken. If you look back 2 or 3 years ago, the network carriers were on the run. They were in serious trouble. They were financing themselves by drawing down their balance sheets, and they were failing in competition with the low-cost carriers.

Since then, a number of us have restructured ourselves—most or many of them in bankruptcy, but some outside of bankruptcy—and in that process, they have completely rebuilt the way they operate

the airlines. In Delta's case, we've gone from a company that was 18 percent international, up to 35 percent, and headed toward 50 percent, because we're finding that a better use of our equipment, and a much more stable fare environment. So, we've completely changed things.

In the process of doing that, the low-cost carriers have not been as fortunate. And what was predicted as straight upward growth has changed. In the case of AirTran, they have deferred deliveries of aircraft; in the case of JetBlue, they have sold airplanes, and they, too, have deferred delivery of aircraft.

So, the network carriers have traction now, they are performing well. The business plan that we have, and that I think, the others have, all indicate that they're going to be profitable in 2007 and going ahead because of all of the changes made. So, I think that these—these companies have gotten the traction, and I think that when Dr. Cooper points to the inherent competitive—loss of competitive force—from the public interest point of view, that that will happen in certain mergers. And the one in front of you today is, I think, blatantly anti-competitive.

The CHAIRMAN. Mr. Parker, what are your thoughts?

Mr. PARKER. Well, I disagree. And I point back to the success of the US Airways/America West merger. When, in fact, what we have done is increased service that would not be there, had that merger not happened, saved jobs that wouldn't be there, and given consumers more choice.

I believe that the biggest competitive threat to the network carriers are the low-cost carriers, and for those who have concerns about small communities—which those low-cost carriers will never serve—they should be very concerned about the health of the network airlines.

The low-cost carriers, since 2000, 2000 to now, have grown at 20 percent per year. Not 20 percent in total, 20 percent per year, each year. At the same time, network airlines have shrunk, each year, about 3 percent. That is not a good trend for small communities. Because if that trend continues, it won't be long until network carriers are a much, much smaller percentage of the total, and you will continue to see service on a point-to-point basis—not to those communities.

We need to encourage an airline industry that allows network carriers the ability to be profitable instead of having us in this continuous cycle of coming back to you every 5 or 6 years and asking for help. And again, all I would ask is that we let competition continue under the laws in place. I believe, firmly, that the transaction we propose would easily pass Department of Justice scrutiny, due to the fact that our industry is so intensely competitive.

The CHAIRMAN. We have been told that the immediate impact of this merger, if it goes through, would be a 10 percent reduction in personnel, is that correct?

Mr. PARKER. That is not correct. Our plan is to reduce the capacity—and this may be the source of confusion—to reduce the capacity in the system by about 10 percent. What that does is allow us to reduce costs, and in doing so, still serve the same number of customers. This in turn allows us to compete with low-cost carriers. So, as we reduce capacity by 10 percent, still serve all of these mar-

kets that are being served today, the result is we have lower costs, and retain the vast majority of the revenue. This is where the network synergies are generated.

As it relates to employees: our commitment is to ensure that no front-line employees are furloughed. We will get the airline right-sized to that smaller size over time, but the right way to do that, as we found in our past merger, is allow this to happen through attrition—people who choose to leave, of course, leave. And we don't need to replace them at a slightly smaller airline. But we would not reduce the employees by 10 percent upon the merger.

What we would do is allow people to leave of their own volition, and not replace them over time. We find that to be—in addition to being the right thing for our employees for morale, it's also the right business decision. Because the fact of the matter is—as I noted in my testimony—US Airways/America West, which reduced capacity even more than that, has already hired 4,000 people in the 14 months since we completed that merger. So, it doesn't make any sense to—the right business decision is to run with a slightly higher than necessary complement of employees through the transition period, and to not do any reductions in force immediately.

The CHAIRMAN. Thank you, Mr. Chairman.

Senator ROCKEFELLER. Thank you, Senator Inouye.

The Vice Chairman of the full Committee.

**STATEMENT OF HON. TED STEVENS,  
U.S. SENATOR FROM ALASKA**

Senator STEVENS. Thank you very much, Mr. Chairman.

I want to ask just two questions of Mr. Steinberg. I've been told that if this merger goes forward, the one we're talking about here now, that it's just the first of a series of mergers. Do you predict that if this merger goes forward, there will be a series of mergers within the industry?

Mr. STEINBERG. Thank you, Mr. Vice Chairman.

You know, we often hear about the so-called "domino effect" if this proposed transaction, or a similar one, goes forward. And I think, as much as I'd like to say yes or no, and answer the question definitively, I don't think we can.

Management of the network carriers, I think, will have to evaluate their competitive position, based on the specifics of a transaction, if it goes forward. Mergers are difficult things to pull off successfully. So, it's no easy decision to simply decide, in response to a competitor, that we'll go buy or merge with another competitor. Because, as I said, earlier history shows that most—but not all—airline mergers have not succeeded.

I do agree that size and scope in the airline business are important, and therefore, management of network carriers will look at the resulting competitive playing field and make a decision. But as to this particular proposal, I think it's very hard to answer your question definitively.

Senator STEVENS. Thank you. I hope that it does not result that way, if a merger takes place.

Mr. Grinstein and Mr. Parker—everyone around the table knows I'm provincial—I recently had a report that, as a matter of fact, two of my staff were stuck in Fairbanks for 3 days and couldn't get

out or get new reservations. Both of our international airports are near two large military bases with all the change and rotations going on, it's not sufficient air service. What effect would this merger have on states like mine? Seventy percent of our cities can be reached only by air, and the major carriers are, in fact, the backbone of our total, across-the-state service. We are one-fifth the size of the United States—are we going to lose service, in terms of the number of flights, if this merger takes place? And what's going to be the effect on the customers? I think Dr. Cooper's ringing a bell for you all, I hear this from very conservative people in my State. They're talking about asking Congress for re-regulation of the airlines, because of the lack of service. Now, what's going to happen if these mergers take place?

Mr. Grinstein?

Mr. GRINSTEIN. Well, I believe that that necessarily is going to result in loss and decline of service.

Let me go back and comment about something that will lead us into that question. The idea that the America West/US Air is a model for what would happen with Delta and US Air is a strange flight of fancy. That was an end-to-end merger. There was virtually no overlap. America West was in extremis, and US Air's Chairman said that, "We have burned all of the furniture, and the company is in a death spiral."

But, these companies are not in death spirals, and they're not at that point. And what they need are the opportunity to grow and expand. I've mentioned earlier—

Senator STEVENS. Jerry, I only have two more minutes left.

Mr. GRINSTEIN. OK, I'm going to build to that. I believe this merger will, of necessity, lead to loss of service opportunities, reductions in service. If you believe that with the kind of debt that this company is going to have, that you're not going to reduce your hubs, you're not going to reduce frequencies, you're not going to consolidate flights, and reduce planes—you believe in Tinker Bell. It has to happen.

Senator STEVENS. Thanks.

Mr. Parker?

Mr. PARKER. This merger would not result in any change in service to Alaska. US Airways flies to Alaska, as does Delta. We would have no intention of changing that, nor the routes that are served, including the code share that exists today with Delta within Alaska.

Senator STEVENS. If you complete this merger, do you contemplate any further additions to your company?

Mr. PARKER. Excuse me, I'm sorry, Senator?

Senator STEVENS. If you complete this merger, do you see that—you getting even bigger and forcing another merger?

Mr. PARKER. Right now, we're just focused on this one, and I—

Senator STEVENS. Where do you buy your airplanes?

Mr. PARKER. We haven't bought an airplane in quite some time, Senator. Our airline, like most network carriers have gone through reductions.

We do have in our fleet today a combination of both Boeing and Airbus airplanes—about half of each. We are currently looking to replace airplanes, and we have bids out to both of those companies.

If, indeed, this merger went through, that would significantly tilt that balance toward Boeing.

Senator STEVENS. Where does Delta buy their airplanes, Jerry?

Mr. GRINSTEIN. We have an all-Boeing fleet. Senator, they are at 57 percent Airbus, and they have the—they are the only American company to order the A-350 which will be the replacement aircraft for the 767, which is the large one that we fly now in our—most of our international markets. And we exist with an all-Boeing fleet.

What you have to have—I mean, you can screw up a lot of things in the airline industry, but you have to have fleet simplification, and by having a consistent manufacturer and supplier, it gives you that opportunity.

Senator STEVENS. Thank you for your courtesy.

I must leave to make a quorum in another committee, Mr. Chairman. Thank you.

Senator ROCKEFELLER. Thank you, Senator Stevens.

A slightly offbeat question. If consolidation were to take place within the airline industry, we may have only three network carriers left, and these three carriers would control 80 percent of the market. I've dealt for 30 years with these exact same kinds of problems with the steel industry in West Virginia. The result has never been happy. The result has always been fewer employees, and massive conflicts and crises over health and retirement benefits.

Now, at the present rate, 19 percent of the share—nobody has more than 19 percent of the passenger aviation market. American has 19 percent, United has 15 percent, Delta has 15 percent, Northwest has 10 percent, Continental has 10 percent, Southwest has 9 percent, US Airways has 8.8 percent.

Now, Dr. Cooper might suggest, as he did, that maybe the Federal Government should return to regulating at least these markets where competition does not exist. And I then, sort of, throw in *ad hoc, ad hominen* comment to Mr. Steinberg how enthusiastic he must be against the captive shipper problems in railroads, because he's described that precisely with respect to airlines. So, a lot of the industry analysts anticipated that if US Airways/Delta merger occurs, it would lead to the other four major carriers merging as follows: United and Continental, American and Northwest.

If this occurs, US Airways and Delta would have 25 percent of the market, United and Continental would have 26 percent of the market, America and Northwest would have 29 percent of the market—these three carriers would control 80 percent of the aviation market.

So, I simply take you back—Senator Dorgan and I are very strong advocates, and others here, Senator Lott, Senator Snowe, many others here—are very upset about what happens in end-of-the-food-chain markets, and the prices, and the service. We have lost service, fundamentally. We can't exist with that. We're a state that's no less important than any of the other 49. We treat ourselves as such, and we try to make policy which takes that into account. What's wrong with that idea, other than it's unusual? I would ask of the two CEOs.

Mr. GRINSTEIN. It's interesting you raised that, Mr. Chairman, because in 1999, this Committee adopted a resolution in opposition to the US Air/United Airlines merger, saying that it would, of ne-

cessity, lead to three network carriers. And, so history is now, 8 years later, repeating itself.

I do think, Senator, that you are going to have a loss of service to small communities—

Senator ROCKEFELLER. That's not answering my question.

Mr. GRINSTEIN. I'm sorry, I must have misunderstood your question.

Senator ROCKEFELLER. No. I assume the loss of service.

Mr. GRINSTEIN. Right.

Senator ROCKEFELLER. What I'm asking is, should there cease to be a deregulated market in the, as Dr. Cooper, I believe, suggested, in those stressed, rural, end-of-the-food-chain States, where there can be no other solution to adequate passenger traffic?

Mr. GRINSTEIN. Well, you have that now, in the sense that you have assistance for Essential Air Service to certain communities—

Senator ROCKEFELLER. Essential Air Service doesn't do anymore, Jerry Grinstein—I hate to say that to you, but it doesn't do it anymore.

Mr. GRINSTEIN. Well, there are a number of communities that are benefiting, there may be more that need it.

Let me come at it, if I may, at another angle. I think the smaller communities need the service, and that this Committee—recognizing its public interest responsibilities—is going to try to find a way to get it. I'm not sure that it has to be done by re-regulation, or deregulation.

Senator ROCKEFELLER. Why, because it's radical? Or because it doesn't make sense to you?

Mr. GRINSTEIN. Well, I don't have any difficulty with radical proposals. In fact, the more groundbreaking they are, in some ways, the more interesting they get. So that is not my issue with it.

But, I think that the best way to do it is to provide incentives for the companies to serve those markets. And our experience—

Senator ROCKEFELLER. Incentives? The government would provide incentives?

Mr. GRINSTEIN. Well, you may not do it in the form of cash.

Senator ROCKEFELLER. Essential Air Service doesn't do it, please don't tell me—

Mr. GRINSTEIN. No, no, no—I understand that. Essential Air Service does some of it, but not enough of it. There are other ways of doing it.

Senator ROCKEFELLER. But it's not enough, it doesn't do it. It's got to be enough, or it doesn't count. I don't want to interrupt you, but I want to give Mr. Parker a chance to respond.

Mr. PARKER. I'd be happy to. Any radical ideas you have, Senator, as to ways that we can improve service—

Senator ROCKEFELLER. No, sensible ideas which some might call radical.

Mr. PARKER. All right, perfect. Even better yet, sensible and radical ideas—we'd love to listen to them. I agree with your concern that providing air service to small communities is becoming more and more difficult. I would argue that the market force that's causing this is the continued decline of the network airlines. And left to the policies we've had to date—in particular, not allowing mar-

ket forces to work, as it relates to things like mergers and acquisitions, would absolutely result in a weaker set of service to small communities, because our airlines would be weaker and weaker.

But to the extent that you or anyone else has sensible and radical ideas on ways that we can provide service in a way that is economic to the airlines, we'd love to hear those.

Senator ROCKEFELLER. And it is not radical—I would say to my colleagues—it is not radical if it works for the small and rural communities which are represented by so many of us around this table. It's only radical because it was changed earlier. We deregulated. And to not regulate the parts that don't need it, but to regulate the parts that you both admit, do need it, and which can not be served properly, unless there's some arrangement of that sort, I think then bears Committee scrutiny.

Mr. GRINSTEIN. You know, it's interesting, Mr. Chairman, of the 209 domestic markets that Delta serves, 144 are defined as "small markets" by the FAA. So, our system of network carriage that has the types of aircraft that can feed those into hubs and then deliver them into markets is exactly what you want to have happening, and that's exactly the mission that we have, as a company.

Senator ROCKEFELLER. Good.

Senator Klobuchar?

**STATEMENT OF HON. AMY KLOBUCHAR,  
U.S. SENATOR FROM MINNESOTA**

Senator KLOBUCHAR. Thank you, Senator.

My home is in Minnesota, and as you know, that's the home of Northwest Airlines, with Minneapolis/St. Paul as its hub, with over 30,000 employees, serving millions of Minnesotans as well as people across the country. I know my colleague from South Dakota knows this is true.

And Northwest, as you know, is also in bankruptcy. And when I was hearing the Senator from Georgia talk about the sacrifices of the employees of Delta during this time, I thought about our own employees at Northwest Airlines—the pilots, the flight attendants, and the machinists, and everyone who joined together and took incredible cuts to be able to keep Northwest Airlines afloat.

And, of course, I'm concerned about what happens here would be good for consumers, and for employees and for the industry, and isn't just happening because bankruptcy provides an opportunity to do something. And I think we have to look at this as the industry as a whole, instead of just this one incident.

My question, first of all, would be about—to you, Assistant Secretary. About the, this idea of alliances, as opposed to mergers. One thing that I know that Delta has been in alliance—correct me if I'm wrong—

Mr. GRINSTEIN. No, that's true.

Senator KLOBUCHAR.—with Northwest, as well as with—and Northwest has also been in alliance with Continental. And in your testimony, you mentioned briefly this concept of alliances. And I just wondered if you could elaborate on that more, and what are the prospects for these type of alliances that fall short of mergers, and what have they produced?

Mr. STEINBERG. Thank you.

Alliances have played a role in the airline industry for a long time, actually. Co-Chairs go back, probably, 20 years or more.

Generally speaking, alliances have been most effective in international markets that are otherwise closed, or not, not completely open to our carriers. And they've been most effective in those markets.

On the domestic front, of course, any proposed alliance has to be reviewed for antitrust considerations and they can raise some competitive—competitive issues. Alliances that create new service are good for consumers, because they enable passengers to, you know, experience new product offerings. Alliances that are simply pricing agreements can be bad for consumers.

I think, as the industry continues to restructure, what we'll probably see is less of a focus on alliances, domestically, and either stand-alone companies, or some other form of consolidation.

Senator KLOBUCHAR. And then my other question would be along the lines of what Senator Rockefeller was asking about. And that's, while we have a hub in Minnesota, we still have a number of communities that are of the—what did he say? The “end-of-the-food-chain”? And if you've ever landed in Bemidji, Minnesota in a snowstorm, you know what I'm talking about. And I—and you didn't have an opportunity to answer that, I'd just like—

Mr. STEINBERG. OK.

Senator KLOBUCHAR.—your answer to what you've seen these consolidations have done to the rural communities in our country.

Mr. STEINBERG. Yes, I appreciate the opportunity to address that, I think that is a very difficult question.

Since September 11th, we've seen a growth in the number of Essential Air Service communities. So, with the decline of the health of the network carriers, we've seen more and more need for subsidies. And that's occurred during a period in which there, frankly, hasn't been all that much consolidation. So, I think the issue is: How do you serve these markets profitably? The reason that there isn't enough service today is that airlines can't make money serving those markets. As airlines become more profitable, and their networks become larger, it becomes that much easier to serve so-called “thinner” markets with fewer passengers.

So, I think, contrary to what some have suggested, actually having fewer, healthier network carriers might end up resulting in more service to your smaller communities, as they attempt to serve the entire country on a network basis.

Senator KLOBUCHAR. Well, with this merger, would this enlarge the network? Because you're talking about—

Mr. STEINBERG. Well, I think the map, you know, speaks for itself, and I don't really want to comment on the specifics of the transaction—I've observed where the hubs are, the proposed, combined carrier. And we can all make our own, you know, judgments based on that.

Senator KLOBUCHAR. Mr. Parker, do you have anything to add?

Mr. PARKER. No, other than that I would agree with Mr. Steinberg, as I've already said. I firmly believe that strong network airlines in our current structure is what small communities need if—to ensure consistent and reliable air service. And, right now, we do not have strong network airlines.

Mr. GRINSTEIN. Well I—

Senator KLOBUCHAR. Go ahead.

Mr. GRINSTEIN.—on the alliance issue, I think that's one of the unexplored opportunities in the business. The—there are a number of things that airlines can do together, without affecting price, but which would provide for cooperation and modern technology, and so my feeling is that where you have an alliance, as we have with Northwest and Continental, that you should explore things such as: common IT platforms, common purchasing, and other things that produce significant cost savings, and move on.

Oddly enough, I agree with Mr. Parker, that the service to the smaller communities is helped by healthy network carriers. But, what you don't want is to have one strong competitor swallowed up by another strong competitor. What you want is to have them out competing and trying to expand in the marketplace and develop that feed into the hubs. And so there are situations where, I think, mergers may strengthen the company. But where there's a significant overlap, and I think that it's going to lead, of necessity, to reductions in service, as opposed to expansions.

Senator KLOBUCHAR. Thank you very much.

Senator ROCKEFELLER. Thank you, Senator.

Senator Lautenberg?

**STATEMENT OF HON. FRANK R. LAUTENBERG,  
U.S. SENATOR FROM NEW JERSEY**

Senator LAUTENBERG. Thanks, Mr. Chairman.

And I thank each of you for your very persuasive statements. I think we ought to invest in—more in railroading in this country, and Amtrak, and get it up to snuff, so that we can relieve some of the pressure that we see placed on the airline business.

But one thing I don't understand is, how these little guys came into the industry, and came under your tent walls, and created such good businesses? Why didn't it happen with the legacy airlines? Why weren't they able to step down, or whatever they had to do to compete with these? With the Blues and the Southwests, and—? Mr. Parker?

Mr. PARKER. First off, I would argue that it's good to have a structure whereby startup airlines can come in. And if they can do a better job, they should be allowed to come in. And these airlines have figured out a better model. They've come in with a lower cost structure than we have, and this is good for consumers and good for the United States. To have a system that allows competition, and that encourages competition, is exactly what we should have. And what these airlines have done.

Senator LAUTENBERG. And that is business that you'd like to have—

Mr. PARKER. Oh, would I like to have it? I'd prefer to own Southwest Airlines than US Airways, yes, sir.

[Laughter.]

Mr. PARKER. I don't—

Senator LAUTENBERG. Mr. Grinstein, what kind of encouragement does that statement make?

[Laughter.]

Mr. PARKER. For the record, I don't own either. But, my point is, the Southwest model is a much better model, but it can't be recreated. They have done a very good job. And the question—if your question is, Why didn't the legacy airlines go and do the kind of things that JetBlue has done? We didn't have the cost structure at that time.

Senator LAUTENBERG. Let me ask you this. You made a bold commitment here, that you intend to reduce capacity of the combined airline by 10 percent, not let a single employee go. But, 10 percent of the system may involve something like 10,000 mainline jobs, and up to 200 aircraft. How will you keep so many employees around, and still satisfy Wall Street, and your obligation to pay off the other debt that you're acquiring?

Mr. PARKER. We would do it by gradually, over time, getting to the right size. The aircraft would go away immediately, through Delta's bankruptcy process. As I've already stated, as it relates to the employees, our view is—because we need very much to have our employees working with us on this transaction, we would not go and furlough any front-line employees. What we would do is, allow those who want to leave, over time, to leave—

Senator LAUTENBERG. Well, let me put the question this way. Two airlines have largely different fleets of aircraft. One of the benefits of the merger is the fact that you can reduce the types of aircraft that you utilize. Now, how do you do that, cut the capacity by 10 percent, and not let go of a single mechanic?

Mr. PARKER. Actually, we would keep a mix of fleet types and indeed, Senator, I do want to be clear—my view is that over time, we would need fewer mechanics than the two airlines have today, initially. We would eventually hire them all back. But, the way we would get there would not be to go through and furlough members of Mr. Roach's Machinist Union. What we would do is, leave those around until people decide to leave—which they do in our business—and we just wouldn't replace them.

Senator LAUTENBERG. Well, time is short. So, I want to ask one last thing here, of you. And that is—the pension benefit, the pension were—obligations were reduced by \$5 billion as a result of your reorganization. If you can come up with \$5 billion in cash for the merger, shouldn't US Airways pay those pensions back before buying other airlines?

[Applause.]

Senator ROCKEFELLER. I'm sorry, but that does none of you any good. And, if that happens again, those who make such interruption will be cleared from the room.

Mr. PARKER. Senator, as you well know, given your business background, the \$5 billion is not our money. And indeed, it's more than \$5 billion—we actually have committed financing for this merger of around \$8 billion at this point—that money is not ours, that money is Citigroup's money and Morgan Stanley's money, which they are willing to loan to us if we do this transaction. We're not using cash on hand, and we don't have anything like that amount of cash on hand. They're willing to loan it to us for this transaction. Your suggestion is much like someone saying to the mortgage lender, "Please lend me the money, but I don't want to buy the house." That money only comes to us if we acquire the air-

line, because they know full-well the value that can be created by putting these two companies together, and they know they will be paid back.

Senator LAUTENBERG. That's a very large hope, and I'm concerned about that.

Mr. Grinstein, how large were the bonuses paid in your company when the bankruptcy proceedings came along? You said that after December 2004, you had gotten past the bankruptcy issue. How long did it take before you filed, and what did you do about bonuses to the senior executives during that period?

Mr. GRINSTEIN. I—we filed in 2005. There were no bonuses paid. We did not seek KERPs—Key Employee Retention Programs when we filed, although we could have, legally. And there are no bonuses in place now for any executive, at all. They, the, everyone gets a flat salary, and that's it.

Senator LAUTENBERG. So, there haven't been any bonuses paid in the last couple of years?

Mr. GRINSTEIN. No, that is correct, Senator. There have been no bonuses paid in the last couple of years.

Senator ROCKEFELLER. All opening statements are included in the record, as will yours be.

Senator Snowe?

**STATEMENT OF HON. OLYMPIA J. SNOWE,  
U.S. SENATOR FROM MAINE**

Senator SNOWE. Thank you, Mr. Chairman.

Obviously, as one who represents a rural State, I've seen the evolution of deregulation since 1978. There's no question that rural States, like Maine, and West Virginia, and North Dakota, have experienced, you know, the downside of deregulation and borne the brunt, you know, of higher costs and less service.

Now, we've been fortunate to have benefited by both US Air and Delta services to Maine. You know, we're essentially regional airports, or Essential Air Service. There's also—I think it's indisputable—that rural states have, you know, bore the disproportionate burden any time there is consolidation or any times there are difficulties within the industry. I think it's important for this Committee to examine the overall issue of these mega-mergers. I think we're on the cusp of more, potentially, and I think we really do have to examine the risks, and the ramifications for, you know, the entire country. And when I looked at that map of the overlapping hub structure, that concerns me, and the whole network.

Because, I think what's different, in this instant, Mr. Parker, than the merger you had with America West, is the fact that you weren't overlapping network structures. So, the inevitable will happen. Which is to say that we're going to, you know, lose service and also, I think, result in higher prices. One or the other. And, frankly, our areas of the country are ones to first experience higher prices and less service. And the last to reap the benefits of any change.

So, you know, I hear what you're saying. It's hard, you know, down the road—today, you know, you've obviously expressed good intentions about, you know, maintaining the same service, not furloughing personnel. On the other hand, what does it mean for even,

you know, the short term, or the long term and how viable that could be, given the fact that you're assuming a debt load of \$24 billion? Doesn't that put your airline even in greater risk, potentially?

What I hear the choice is, that you're not going to get the low-cost carriers into your smaller markets, and that's true. And that's true. On the other hand, we're left with the choice of having one dominant carrier, potentially, in our smaller markets. But, if you should fail, then what do we have? And I think that is the risk here.

It's hard to believe that we'll continue the same service. And two of our airports, in Portland and Bangor, for example, if we had this combination, then we would have 11 or 12 city pairs. Without any competition, that would really represent a market share of more than 90 percent of the passengers.

So, I'd like to hear from you how you think it will not increase the risk to your company, leveraging this kind of debt for the future.

Mr. PARKER. I'm happy to answer that, and to go back and cover your overlap question, as well.

As it relates to the debt load, an absolute level of debt is not a particularly meaningful number in and of itself. For example, General Electric has \$400 billion of debt. General Electric is an enormous company that has enormous profits. What matters is if you can service the debt.

What we have, in this case, is a larger airline, that has higher profitability, and as a result, can service the debt. And I feel extremely comfortable that the balance sheet that the US Airways/Delta merger creates, would be the strongest in the industry. Today, US Airways is the strongest. The new US Airways would be the strongest of the network airlines in terms of debt, so, I do not believe that is a concern. But thank you for the concern, and believe me, it's something we're extremely focused upon.

As it relates to the overlap question, and as it relates to small cities like those in Maine: First off, on the overlap piece—it is not the number of overlaps that matter, it is the extent of competition on those overlaps. And again, when you take the time to actually, not just look at a map, but to actually go and do the analysis on a market-by-market basis, what you will find, is that those markets are intensely competitive.

Finally, one of the things that I would like to point out is, our pricing philosophy at US Airways. Coming from America West—a low-cost carrier—we actually understand that if we try and charge people in places like Portland, Maine higher fares than are rational, those people will end up driving to Manchester, as they're doing today. And we have gone through, in a number of places already throughout the country, and lowered fares.

A number of communities who have submitted letters to the Chairman about their support for this, without going through them all, it will just reference the final sentence from Huntsville, Alabama, it says, "Huntsville International feels it's time for change, and we believe that Delta/US Airways should be given the chance to be the catalyst to foster lower fares, and more service, for smaller communities."

That is a community that has seen what happens when an airline with a pricing philosophy like ours serves their airport . . . we understand that if you don't lower your fares to stop people from driving to where low-cost carriers are, you will lose the customer. This is not a mentality that legacy carriers have. One of the radical changes we've made, with our pricing philosophy at US Airways, one that you would see at the new Delta—

Senator ROCKEFELLER. Senator Snowe and Mr. Parker—I need to interrupt at this moment to say that a vote is gone off, and what I would like to suggest is I will stay here—Senator Lott, you're next?

Senator LOTT. If I could go, because I will—

Senator ROCKEFELLER. Yes, you're next, I hope you will stay, you are the next up, so that will have to be your judgment listening to that.

But, we are going to try and just keep this going. But, if anybody leaves me out to dry, I'm going to remember it for 30 years.

[Laughter.]

Mr. PARKER. I'm not getting up, Senator.

Senator ROCKEFELLER. Yes, Senator Lott.

Senator LOTT. May I proceed then?

**STATEMENT OF HON. TRENT LOTT,  
U.S. SENATOR FROM MISSISSIPPI**

Thank you very much, Mr. Chairman for having this hearing. Of course, it was described as a hearing on the state of the airline industry, and the health of the airline industry, broader than just the mergers. But, I think it's a part of the process, it's very important, we need to think very carefully about how we do our job this year in support of the aviation industry. We are going to have to deal with the FAA reauthorization, and so to have these hearings are very, very good.

Thanks—welcome all of you here, and thank you to our panel, all of you, for your testimony. I find it very interesting. To the two CEOs here, let me congratulate both of you, you obviously have been doing an outstanding job as the head of your airlines, and you've made, you know, very fine statements here today.

You know, we are making progress in aviation. I do think the quality of our leadership, our CEOs, has improved, markedly, in recent years. Your industry—airlines are making important moves: coming out of bankruptcy, and even making money, Heaven forbid, and that's all very good.

I think that your merger with America West has worked well for you, but I'm a little concerned as you're still working through that process, now you're—you know, you're making a big leap here, and trying to take on this next merger.

And, I must say, you are an aggressive suitor. But the lady from the South, Atlanta, does not seem to want to be forced into this shotgun wedding.

[Laughter.]

Senator LOTT. And so, generally speaking, I don't oppose mergers. I think mergers that can make good business sense, and if they're not anti-competitive, completely, or cut back on service, let the process work.

But there's something that does bother me, first of all, when it's a hostile effort. How do you respond to that, Mr. Parker?

Mr. PARKER. Well, we didn't want this to be hostile, indeed, we'd prefer it not to be. But I fully understand Delta management's response.

But we have an obligation as well, Senator, to the people that I work for, and the people that work for me, to do what's best for our company, and to ensure that we're building a company that is as strong as it can possibly be. And what I believe fully, is that US Airways, on a stand-alone basis, is an outstanding company that's going to have a fantastic stand-alone if this merger doesn't happen.

Having said that—and furthermore, as much as I enjoy this, I could be sitting at home and not testifying in front of you about why it's so important to do this. I could have an easier life than this, Senator. But the fact of the matter is, it's my job, to go do what I—to go do what the people that pay me, pay me to do, to go try and build something better. And I have an obligation to do that, as I know you appreciate. And that's why we're going forward.

It's not—it's not as simple as when someone tells you “no,” you go away. When indeed, you have an obligation to fulfill for the people that work for you.

Senator LOTT. Have you made any commitments to your employees about transferring bargaining rights to the merged company?

Mr. PARKER. No, sir, the situation is as follows. We have, as Mr. Roach can tell you, a heavily unionized workforce at US Airways. Delta has only one union—two, actually—but is not very unionized at all. What we have said, is we will let our employees decide. We will neither ask people to be represented, organized—by organizations that they don't want to be, but furthermore, we're not going to fight organization efforts from union. If they can convince people, that's what they want to do. We happen to believe that unions at airlines are not necessarily a bad thing that need to be fought. What we need to do is work together and get contracts that make sense. But, the fact of the matter is, we will not oppose if, indeed, our employees decide that's what they want to do—

Senator LOTT. All right, thank you.

Mr. Grinstein, first, thank you for what you've done. I think you've done an outstanding job at Delta, you've made a lot of progress. I presume, and hope that you're getting ready to come out of bankruptcy and you're going to retake your position of prominence, of service in the aviation industry, and I appreciate that. I'm sorry you're having to be tied up with this process when you really need to be, I think, focusing on other things.

My greatest concern is that this could mean less service. You know, I just, I think when you look at the routes, duplication of the routes—I mean, it would lead to some of these routes being eliminated. I don't see how you could do otherwise. I don't think it would make good business sense in a merged arrangement. How do you respond?

Mr. GRINSTEIN. Well, of course, I agree with that. I think that when you get into the level of debt that you're talking about with this company, that you're going to have to trim it significantly, and among the things that you're going to trim is service to smaller

communities. And those markets that go from three to two competitors, and from two to one competitors are going to pay part of the price, and the other part of the price is you're just not going to continue service in those.

Senator LOTT. There's something worse than prices that are too high. And that's no service. We've dealt with both of those. Now, I admit, your pricing system makes, you know—maybe it makes sense to you, but the people don't like it, don't appreciate it. And, you pay an outrageous price to fly, just to Atlanta. And then you can fly, you know, all over the dang country, to the big cities, for one-third the price.

So, the main thing is, I want reasonable prices. Not outrageously low prices—you can't make any money when it costs more for gas to drive to a site than it does to pay for a plane flight. So, I do think the industry as a whole needs to have some system that makes more sense in regard to fares, reasonable and fair fares. Not just necessarily \$200 fare, but, you know, I think the risk here is—in the industry as a whole—and I realize there are some small communities and areas where you've—maybe you've been providing service that doesn't make sense. You're not going to be able to continue to do it, you're going to have to cut back.

But, this merger causes me concerns, and I just wanted to get that on the record. Thank you, Mr. Chairman.

Senator ROCKEFELLER. Thank you, Senator Lott.

There's been a revision. We, in fact, have two votes. We are, however, a very loyal band of Commerce Committee Members, we will be back, and Mr. Steinberg—if you could maintain your position between those two CEOs—

[Laughter.]

Mr. STEINBERG. I'll keep them apart from each other.

Senator ROCKEFELLER. We would appreciate it. About 15 minutes.

[Recess.]

Senator ROCKEFELLER. We're waiting for Senator Dorgan, who is on his way back. And, for Senator Cantwell, who is on her way back. And people can talk.

[Laughter.]

Senator ROCKEFELLER. Mr. Steinberg, maybe I'll just take advantage of my colleague's absence, and simply ask you that—this question.

Mr. Parker testified that there would be very little impact on the communities if the proposed merger went through, Mr. Grinstein testified that there would be significant negative impact. In evaluating mergers—which I'm sure you have—and their impact on small, smaller communities—have you come up with any wisdom?

Mr. STEINBERG. Senator Rockefeller, I think that the answer to the question of what will happen, of course, very much depends on the decisions that a combined entity would make about continuation of the hub structure that's now in place. Obviously, it stands to reason that if the result of the transaction that a hub is downsized or closed, then you probably would see a reduction of some sort, in service, to some communities.

Senator ROCKEFELLER. You are, you're astudiously and admirably neutral.

[Laughter.]

Senator ROCKEFELLER. Let me try this—

Mr. STEINBERG. Well—

Senator ROCKEFELLER. Would it be possible to construct a carefully regulated service into carefully selected rural communities who really do depend on it, and unlike captive shippers, who do, then, raise the price to whatever they want, regardless of their protestations—have dual capacity in those areas?

Mr. STEINBERG. I think we need to work hard to find a way to improve service to small communities, because clearly that remains to be the biggest problem from deregulation. I don't think that re-regulation will work. And the reason is, that, if you re-regulate service in small communities it won't, by definition, have an impact on service elsewhere. There's no way to separate out the markets.

I do think that—

Senator ROCKEFELLER. Well, then, is there a construct, which does not involve re-regulation, which is not there for impact on the rest of the route?

Mr. STEINBERG. Yes.

Senator ROCKEFELLER. Is there a construct which you have thought of, which has been kicked around—

Mr. STEINBERG. Yes.

Senator ROCKEFELLER.—which could be possible?

Mr. STEINBERG. One of the things that we're at the beginning stages of looking at is ways to encourage more service to small communities through the use of the new class of jets that are out there, which are smaller, cheaper to operate and—well, I can't say that today they would allow such service—over the long-term, they should allow such service.

If you combine a new fleet of, sometimes they're called, very light jets but they're basically, they're jets that carry many fewer passenger, with new technologies that allow us to aggregate demand by passengers. And you can envision, at some point in the future, a much more vibrant network where there would be, what we would call "on-demand" service for people living in small communities that could be operated profitably.

Senator ROCKEFELLER. A final question before I yield to Senator Dorgan. Would these jets contemplate carrying more than 12 to 15 passengers?

Mr. STEINBERG. I think the current breed of jets are around six passengers, but I think over time, what you'll see with improvements in manufacturing these composite materials is, jets of all stripes, if you will. But the point is, that they are jets, so the customer experience over time would be markedly better than it is today with smaller planes.

Senator ROCKEFELLER. Those customers that get on.

Can I ask my staff to work with you to try and figure other ways? I think there is a solution here, I don't think it's easy, it's given to all kinds of pre-determined, horrible words like re-regulation, which is the railroad's favorite word. But I don't think it necessarily has to come down to that, but it has to come down to something in that order.

Mr. STEINBERG. I would very much welcome the opportunity to do that—

Senator ROCKEFELLER. Thank you.  
 Mr. STEINBERG. This is a very high priority for us.  
 Senator ROCKEFELLER. Senator Dorgan?

**STATEMENT OF HON. BYRON L. DORGAN,  
 U.S. SENATOR FROM NORTH DAKOTA**

Senator DORGAN. Senator Rockefeller, thank you very much.

Mr. Steinberg, first with regard to your testimony—I'm a big fan of the marketplace, I used to teach a little economics, I think the market system is the best method of allocating goods and services, but it also needs a referee. And, as I read your statement it is—the market forces have to determine everything.

You know, I was telling somebody once about Judge Judy on television, that out-of-sorts television judge earns \$25 million a year, according to a report I saw, and the Chief Justice of the Supreme Court earns, what, \$180,000 or \$200,000 a year. That market system. Or a third baseman earning the equivalent of 1,000 elementary school teachers—the market system.

So, I love the market system, but it needs a referee. Sometimes perverse results come from the market system. And if we are only concerned about the "market," with respect to air service, you know, it might well be the market would say air service only exists between major cities.

I just want to make a couple of comments, and then ask some questions. Deregulation has given us two levels of air service—one is an urban level of air service that is wonderful, if you're fortunate enough to live in Chicago and want to travel to New York, or Los Angeles, God bless you, you're going to have lots of opportunities, and competition for fares, and low fares. And if you, however, live in a rural area, tough luck.

So, you can go to a travel agent, and you can say to the travel agent this, "I want to travel twice as far and pay half as much," and the travel agent would say, "Well, how about traveling half as far and paying twice as much." That's exactly the case, traveling from here to Los Angeles, or here to Bismarck. Do I like that? Of course not. I don't think it makes any sense at all.

Now, there's a natural tension here, and it relates to this hearing, tension with respect to the airline industry, in which network carriers have created post-deregulation a hub-and-spoke system. And unregulated hub-and-spoke system in which the big airlines dominate their hubs. I like the hub-and-spoke system, because it's the only way the spokes get service into a hub, and then move anywhere.

Other airlines have decided, "We're not interested in hub-and-spoke systems, we want to pick city pairs where we can make money." And so, you all, Mr. Parker, you with really a wonderful look in your eyes as you contemplated owning Southwest—you look at that and say, "What a wonderful model!" It's certainly not a wonderful model for much of rural America, is it? Because that model would obliterate the hub-and-spoke system.

And so, I say all that because, as I said, if you're leaving today flying across the country, you're going to get a much better deal than leaving today to fly halfway across the country. And that's a

shame. It's a shame for a lot of consumers out there who get injured by these policies and by these issues.

I am not a fan of mergers. I'm not a fan of—I wasn't a fan when United wanted to buy US Air. Mr. Parker, when America West wanted to buy US Air, it occurred to me it was a minnow swallowing a sick whale. And, somehow, apparently something has worked here, and so, good for you. I admire that. But, look—that is a different transaction, America West buying US Air, than two network carriers deciding that they're going to marry up. Or, in this case, there was no romance, so there's not a marriage, it's one network carrier saying, "I'm going to take over the other network carrier."

I'm not a big fan of that, because inevitably what is going to happen is, the other network carriers are going to decide, "We've got to merge." It's going to be, I think, American/Northwest, Continental/United—we're going to see transactions in those areas. And so, I don't think that gives consumers more choices, I think it gives them fewer choices. I don't think it gives them more competition, I think it gives them less competition. I think concentration is the exact opposite of competition.

So, having said all of that, let me ask a couple of questions, if I might. Mr. Parker, you first. If Delta were not in bankruptcy, would you be pursuing this transaction?

Mr. PARKER. Most likely not. I can't say that for certain, of course, but most likely not. Much of the value that is created is through Delta's bankruptcy, to restructure the route network by returning aircraft to lessors, which is dramatically easier through the bankruptcy.

Senator DORGAN. You can actually abrogate contracts and take those assets, the airplane assets and get rid of them? Bankruptcy gives you a much, a much more—I should say, it gives you an opportunity you wouldn't have, were Delta not in bankruptcy, right?

Mr. PARKER. It makes the ability to return aircraft to lessors easier, which is—we believe one of the ways of reducing the cost structure of the airline to compete with low-cost carriers is one of the basic tenants of this. And yes, the bankruptcy process facilitates that.

Senator DORGAN. Airlines have had very significant financial trouble—I respect and understand that. It's been tough, especially for the network carriers—for a lot of reasons. But, it is also the case, I think, that some bankruptcy filings were a result of the previous bankruptcy bill passed by Congress, and the effective date, and were defensive filings to allow them to do certain things to become, perhaps, more competitive with low-cost carriers. Would that be the case, you think? I would ask either of the CEOs.

Mr. PARKER. If they were defensive filings?

Senator DORGAN. Yes.

Mr. PARKER. Before the law? I don't know, I haven't filed bankruptcy.

Mr. GRINSTEIN. The—if I understood your question, Did the companies race to file before the new bankruptcy law took effect? Was that—

Senator DORGAN. Congress passed a new bankruptcy law—

Mr. GRINSTEIN. Right, right.

Senator DORGAN.—it had an effective date on it, and there were certain advantages to, to filing prior to the effective date. And some airlines, I believe, took advantage of that for their own reasons, is that correct?

Mr. GRINSTEIN. Well, I can only talk about Delta, because I don't know—the only other company that filed at the same time, or approximately the same time—exactly the same time—was Northwest Airlines.

But in our case, there were two changes that Congress made in the bankruptcy law that affected it. One was the ability to get what we call KERBs, Key Employee Retention compensation pieces, and the other was the limit on the amount of time that the debtor—management had the right to oppose the plan.

In Delta's case, we did not ask for KERBs, so it was not relevant to us, the timing. And, we are well ahead of the schedule that was there. So, it was not a motivating factor for Delta, at all.

Senator DORGAN. I'm interested in what this proposal means for the consumer, the employees of the industry and finally, for the corporations themselves. I'm not unmindful of the fact that you need to make a profit. We need to have an airline industry that is profitable—I understand that. The question is, how is it structured?

And I started by telling you that I have great angst about what has happened in recent years since deregulation. I don't think deregulation has served rural interests at all, rural States' interests at all—I think it's been devastating. And so, as I take a look at what's happening in these kinds of discussions, it was US Air/United and then this one, and this would be followed by, at least, two or three more. As I take a look at that, it doesn't seem to me like there's any discussion of the type that Senator Rockefeller has been asking about—what about us? What about the folks in the rest of the country? I mean, tell me, if you would—both of you, I guess, perhaps Mr. Parker first—tell me why this merger, or this acquisition by US Air is the best choice for consumers, employees, and for the country? And Mr. Grinstein, tell us why this is an awful choice, for the same groups, OK?

Mr. PARKER. Right. As it relates to consumers, again, the consumers after this merger would have more choices to fly to more places, we would not eliminate service in any city that we fly, and you would have the benefit of a stronger airline. And getting back to your small community question, Senator, I reiterate my firm belief that the best, in our current structure—notwithstanding Senator Rockefeller's ideas that he may have on changing the structure—in the current structure, the best way to ensure that small communities have continuous and good service is to ensure that the network airlines are healthy. And that has been, that has been much of the problem over the last, several years, in my view. Is the constant churn that has gone through network airlines that make it—where you see communities like yours lose and add service, and lose service. And it also creates problems for all of the employees, as well.

Senator DORGAN. But, Mr. Parker, I don't disagree with you, I agree with you on that point. I think it's important that network

airlines be healthy, especially those that have hub-and-spoke systems that serve our rural areas.

But your airline is a network airline and you've described your health—you're making, you're profitable at this point—so at this point, why is that not enough, and why, why is there not a risk for you, now, to absorb another major airline—is there not a risk in that, to move you to a situation that is different than you have today?

Mr. PARKER. I think it dramatically reduces the risk of the combined companies. Again, and again, to go back to a real-world example—we took America West Airlines that was not doing particularly well, US Airways that was on the brink of liquidation, the whale that the minnow swallowed, in your terms—

Senator DORGAN. Sick, actually, sick whale, I said.

Mr. PARKER. Sick whale. Our employees said we were hitching our boat to the Titanic. So, I heard all of those things. The reality is, what happened is, we took that sick whale, we took that Titanic, and we turned it around. And small communities that would not have service today had we not gotten that—a number of small communities would not have service today if we hadn't gotten that done, and 30,000 employees would be out of work.

Healthy network airlines are the most important thing in today's structure to provide service to small communities. I believe that a merger of US Airways and Delta makes both of our companies stronger, and that, therefore, is better for consumers throughout the United States.

Senator DORGAN. I appreciate the Chairman indulging me on time, I know my colleague, Senator Cantwell, has questions as well.

I want to make the point—you could make the same argument, one I support, about strengthening network carriers—you could make the same argument in support of the next three mergers coming up to one carrier, with a seamless transaction for the country. It's important for the health of the network carrier. The question is, what will this merger really mean for the consumer, and the rest of the country?

And if I might ask Mr. Grinstein, then, to answer the question, if you would, why is this a terrible idea for consumers, employees, and for the country?

Mr. GRINSTEIN. Well, in the first place, we—these are not unhealthy companies at this point. I know that US Airways is projecting a profit and a performance, they've indicated already that they're talking about fleet replacement and discussing that. Delta has—is on a business plan that is—exceeding its business plan, Delta's projection is that it will be profitable, it will be able to afford aircraft, it will be able to compensate its employees, it will be able to give them the kinds of career satisfaction that they are entitled to have, and it will be a growing company.

As I mentioned, we've called back all of the pilots on our furlough list, we have almost called all of our flight attendants back from the furlough list, so Delta is not a company that is unhealthy. They are two healthy companies that are competing in essentially the same market.

I think it's a bad deal for a number of reasons. In the first place, from the employee point of view, you want to have approximately—you would have the 10 percent cut. You're talking about approximately 200 aircraft, and all of the people that go with it. What we're listening to is, "I don't intend to stop serving the hubs, I don't intend to stop, to reduce employment other than by attrition, I don't intend to raise fares," but there's no one to enforce it.

If you take a look at St. Louis, when American bought TWA, they said, "We will expand international service, and we will expand domestic service." If you take a look there today, domestic service is down about 60 percent, there are about 70 percent fewer seats on the market, and the low-cost carriers, Southwest, has gone down 18 percent. And there's no international service except one a day—one a week—to Puerto Vallarta.

So if history tells us anything about it, it doesn't work. And, you're going to have lay offs. You don't have anyone to enforce that—it's not a contract, it is—believe me, trust me, I've done it before. But, what you're talking about with America West and US Airways is not an example like anything that will go ahead.

But, in terms of service to small communities—are you better off with six network carriers, or are you better off with three? Are you better off with more hubs, or with fewer hubs? Are you better off having those network carriers fiercely competing with each other, trying to get into those markets, taking, for example, Mr. Steinberg's example of the new, very light jets that are coming in, and trying to serve all of those markets to feed into a network?

Because, approve this, and what you are approving sets such a low standard that—how are you going to say "no" to Continental and United? How are you going to say "no" to Northwest and American? You will devolve into three network carriers. And once that happens, you won't get the same level of service.

When we talk—let me just say a word about debt. The comment was that companies have huge debts, like General Electric. General Electric is a perfect example.

In General Electric capital, they have about a \$400 billion debt. Three hundred and ninety-five billion dollars of that is in General Electric capital, because they're constantly churning and trading it. But in the rest of the manufacturing company, they only have a debt of about \$5 billion, and \$100 billion of revenue. So, it's a totally diff—it's like comparing the rock of Gibraltar to a sand dune. It's a fundamentally different kind of business.

When you look at the frailty and the fragility and the volatility in this business, you can't service that kind of debt without making fundamental changes, and when you have an overlap like this, you're going to have hub reductions, you're going to have service reductions to smaller communities, you're going to lose frequencies, and there is no way. And the history of it in US Airways' own case, is that a number of—almost 70 percent of—their small hubs had significantly reduced service.

So, it is not a good deal for the consumer, for the small community, and it sure as hell isn't a good deal for all of these people who have worked so damned hard for Delta Air Lines, and have invested their careers in it, and they're entitled to get the benefits of it. And—

Senator ROCKEFELLER. Senator Dorgan, I'd like to move on to Senator Cantwell.

Senator DORGAN. Mr. Chairman, I hope to talk to Dr. Cooper and Mr. Steinberg at some point, and maybe I will a little later, but I thank the witnesses for their responses.

Senator ROCKEFELLER. Senator Cantwell.

**STATEMENT OF HON. MARIA CANTWELL,  
U.S. SENATOR FROM WASHINGTON**

Senator CANTWELL. Thank you, Mr. Chairman.

And I thank Senator Dorgan, although my questions are, really, I think, along the lines that you were exploring, which I think is a very important issue.

GAO recently did a report in 2006 that said since 1980, the average fares for flights over 1,500 miles has declined by 52 percent, while those for trips shorter than 250 miles have just fallen 13 percent. So, those small markets that you were just alluding to, and that many of my colleagues alluded to earlier in their questioning, are important issues for us. How do you maintain those markets? How do you maintain competitive fares for those markets? So that's something that, I think, is very important, Mr. Chairman, in this discussion.

I am concerned about the history of these two stories. And, I'm trying to understand, Mr. Parker, and Mr. Grinstein, about this process. Delta has gone from \$17 billion down to \$7 billion in their reorganization of debt, and in the meantime, basically kept pensions for 90,000 employees. And yes, while there are people here today that represent a worker agreement on 10,000 of those employees for a new retirement plan.

On the other side, US Air hasn't completed its merger yet, and yet in that process, you know, you've come to the U.S. Senate for \$900 million in a package, a part of what was the post-9/11 efforts, and in the meantime dumped the pension program for 35,000 employees. So, I'm not sure why the people in the back of the room really aren't the question here, the picture of the two different approaches.

So, Mr. Grinstein and Mr. Parker, first of all, I want to ask you if you plan to reinstate the defined benefit retirement plan?

And second, Mr. Grinstein, I'd like to ask you, How did you go through this bankruptcy process, and considering these pension programs, as it relates to the efficiencies that you also have to achieve in trying to keep this balance between large and small markets?

And Dr. Cooper, last, to you, do you think that US Air can achieve these efficiencies that it is describing in this merger and consolidation?

Mr. PARKER. Thanks. First off, as it relates to the US Airways pension history, I wasn't there—to be clear—that doesn't mean I don't know anything about it. But what I do—my understanding is that without terminating the pension plans, that company was going to liquidate. And they went through a bankruptcy court process to do that. The laws that have since been passed by Congress, that I believe were good laws, were not in place then. Despite then-US Airways management trying to lobby for such a law, they didn't

have the ability to do what Delta has the ability to do. So, the only choice available for that management team, my understanding is, was to terminate those plans. The alternative—

Senator CANTWELL. Will you reinstate them?

Mr. PARKER. Well, as we move forward, if we move forward with the Delta plan, we would abide by all of the—the plans, the pensions would be exactly the same as the Delta employees have today, we'd make no changes to it.

Senator CANTWELL. How could you make no changes to it?

Mr. PARKER. We don't have any intention to change the existing—

Senator CANTWELL. And so would you reinstate those pensions—

Mr. PARKER.—it would continue to fund.

Senator CANTWELL. Would you reinstate pension benefits for US Air employees?

Mr. PARKER. I don't believe the company can afford reinstating the pension plans for the US Airways employees.

Senator CANTWELL. So you would just—you are just saying you would keep the good business practice that Delta has had to go through in its reorganization and its process, but not adhere to reinstating those benefits for US Air employees.

Mr. PARKER. The benefits for the US Airways employees have been assumed by the PBGC, and that's where that obligation lies. And we would abide by the obligations to the Delta employees and move forward.

Senator CANTWELL. Do you understand how that sounds to a Member who voted for that \$900 million bailout plan, and then the PCBG is picking up the pensions, and you're asking me to take over a larger airline that has gone through the hard work of bankruptcy and making these decisions, but in that bankruptcy decisions, basically did keep the pensions for the majority of their employees? And is in a battle, a working relationship with the pilots that are here today, to try to figure out how to move forward? So, there has been a lot of sacrifice and a lot of balance.

Mr. PARKER. Oh, absolutely. And, believe me—this is not about us trying to ignore the sacrifices that have happened at Delta Air Lines. The people have been through an amazing amount, and the company has done a fantastic job. Never have we stated that this is about our ability to do it better than Delta has done it, I think they've done an admirable job, I know the people have done a fantastic job and have gone through a number of concessions, as has the entire industry—including the people of US Airways. We have all had to go through the same thing.

What I believe, unfortunately, is our work isn't done. And, if all we do is let it settle with a bunch of airlines coming out of bankruptcy, and then going back to where we were, which is, "Oh, fuel prices are falling, the economy's coming back, let's just keep the status quo," we're going to be back here in 5 or 6 years, Senator, asking you for other bailouts. And I don't want to do that.

Senator CANTWELL. Well—

Mr. PARKER. What I want to do is come up with a, with an industry that can actually succeed through good times and bad times, so

we don't have to go ask our employees for concessions, and so we don't have to come back here and ask you to bail us out.

Senator CANTWELL. Mr. Grinstein?

Mr. GRINSTEIN. How did we get from 17 to 7? A variety of ways. We basically said that we would cut \$3 billion—\$2 billion of costs out, and we would so restructure the airline that we'd add another billion in revenue. And I will tell you that we're well ahead of that plan.

We included in our calculation trying to retain those pensions, if we could get Congress to pass the Pension Protection Act—and as you recall, fortunately, at the last moment, we got it. And so we were able to honor the pensions of the 90,000 non-pilot employees.

Some of it was renegotiating aircraft leases I mean, we were paying \$225,000 for a plane, we're now paying \$75,000. We had to go through the negotiations for airport leases and all of our suppliers, and so we took enormous costs out. But we always felt that we were going to be obligated—that we were obligated, a commitment had been made, and we had to preserve as much of that pension as we possibly could, and that has led us to where we are.

The creditors' committee represents a large portion of the debt, but the largest single group of our creditors would be the PBGC, the pilots and the retirees. That's how we got where we are.

Senator CANTWELL. And if this hostile takeover actually happened, then instead of \$7 billion, what would the debt be?

Mr. GRINSTEIN. Twenty-four billion dollars.

Senator CANTWELL. Dr. Cooper, on efficiencies?

Dr. COOPER. Well, if you look at the story you've heard today: the route overlap, the capacity reductions, the labor issues, and the promises that you've heard about, "We won't cut this, we won't cut that,"—it doesn't add up. And, you can see the Members of this Committee—to use an expression from a lot of the parts of the Members of this Committee: that dog won't hunt. It just doesn't add up.

And so, in the end, when you look at this merger, and you're being given examples about America West, US Air—which we did not oppose—completely different kind of merger. You're told that the industry's going to go back to where it was, and we'll be back here asking for more money—this industry is different. It has radically transformed itself in the last 5 years. So, the story just doesn't make sense.

If you look at the history of these kinds of mergers, where you're eliminating overlap, where you're—clear plans to dramatically reduce capacity, you're either creating lots of monopoly cities, which you are then subject to abuse of market power, or you're going to lose service.

If you try to write in merger conditions all of the promises that were made here today, that company would squeal like a stuck pig. Tell you that, "Hey, we can't go forward on this, the bankers would probably bail." Because, if you try and do the math, the bankers will look and say, "Hey, this doesn't add up anymore, we're not going to put our capital at risk."

So, the simple fact of the matter is that—and this Committee knows full well, I've heard it expressed—the only way to stop this merger wave is to stop the first merger. If you don't like the picture

you see at the end of the three or four mergers that are being talked about, somebody has to stand up and say, "Wait a minute, this one is anti-competitive."

If we want to have network carriers, we can accomplish this in a way in which we have some competition, where people are healthy, they've shown that they can get that way, they've taken the hard steps, and to allow an anti-competitive merger, I think, consumers will be hurt. Because, you simply are eliminating too much competition.

Senator CANTWELL. Mr. Steinberg, did you want to comment on that GAO report about the small markets only having a slight decrease in price while the large markets had all the competition which would lead one to think that this would leave the smaller hubs with even more challenging times and higher prices? And for, you know, for the Washington State economy and I'm assuming some of my other western colleagues, but probably it's in lots of other states whose economies depend on relationships like, between Seattle and Spokane and various parts of our State, we count on having good competition for price and fare.

Mr. STEINBERG. And we recognize that. One of the explicit goals of DOT in looking at economic issues is to ensure a competitive breadth of service to small communities, which means enough flights at the right prices. The difficulty, of course, is that in a deregulated environment, there's only so much the Government can do to make that happen. This is the observation that fares have gone down in markets where there's lots of competition and they've not gone down in other markets isn't at all surprising to me. That's what one would expect to happen.

Deregulation has been a big success in producing low fares for, you know, millions of Americans in most markets, but there's no question that in some of the smaller markets, it has not been as successful. And that's why we recognize that there do need to be other constructs for fixing the problem.

But, going back to the discussion we had earlier, it does seem to me that healthy network carriers will support more service. Because the first service to go when they start losing money is the service with the fewest passengers and the thinnest profit margins. That's why I said earlier, since September 11th, without significant consolidation, there has been a decline in service to small communities.

Senator CANTWELL. And I'm assuming you don't define "healthy" as only two or three large carriers?

Mr. STEINBERG. That's, you know, I don't think there's a magic number. There are industries that are quite competitive where there are just a couple of companies, like UPS and FedEx would be an example of one. There are other industries where you need to have more to ensure that consumers get the benefit of lower fares.

But as I said in my opening statement—this industry, you don't want to place too much reliance just on market share. Because you have the presence of companies like Southwest—and admittedly, they don't go everywhere—that have had an enormous impact on the fare structure generally. You have an environment where, thanks to the Internet, essentially perfect pricing information, and

you do now have lower cost structures which, as I said before, I mean, the situation we're now in, I think, we can say for the first time, the network industry has the ability to provide low fares, but still make some profits.

But I don't mean to minimize the significance of the issue that you raise—it's a very important issue, with obvious economic consequences for the communities that are involved. And we have to work very hard, and I'd like to work with the Committee on ways we can incentivize more service.

Senator CANTWELL. Well, just as an example, the wine industry in Washington State, in Walla Walla is a growing, diverse industry. And air flight service into that area is of great economic importance to a whole new industry that hadn't previously existed so, getting good flights—

Dr. COOPER. The UPS/FedEx example really rung a bell, because you know, let's not forget we have the Postal Service. And we've got a firm commitment to that. And UPS and FedEx compete for certain kinds of traffic, certain types of packages, in certain types of markets. And that's essentially the kind of problem we have in this industry. Is that, there's a lot of the, you know, the small market, you know, simple transportation that the competitive part won't deliver.

So, that analogy is actually, it rings the bell, you know, we still have a Postal Service that moves an awful lot of letters that the other two guys are not interested in moving. And, if you try to tell them, "Move those letters," the price of delivering a letter, as much as we complain about it today, would go through the roof, if you left it to the marketplace.

So, we've got this challenge of recognizing the broad public interest, and also having the benefits of competitive markets in some places.

Senator CANTWELL. Well, Mr. Chairman, thank you for your indulgence, and I hope that we'll continue to look at this, as Dr. Cooper and others said. You know, there was a *San Jose Mercury* news article about how—I think it was an editorial—that lawyers, investors and bankers and airline executives come out as the likely winners, but where are travelers and the labor unions that are part of this organization? So, I think we really need to keep our eye on this, Mr. Chairman, and thank you for this hearing.

Senator ROCKEFELLER. Thank you, Senator Cantwell.

And just before—Senator McCaskill is on her way back, hurriedly, and we have Senator Dorgan back, and I'm going to ask one more question.

You can not on the basis of America being America, allow—not just a Walla Walla, which has a coming industry, and a growing industry, which the airlines recognize—but a state like West Virginia, or Montana, or South Dakota which could have growing industries but have not yet shown them. But if there were air service, it would really make it possible, and it's easy to prove. And my question is this, to both of the CEOs: If we were to try to find a way to get both of you or other iterations of you into rural communities by means other than the classic market system, would you be amenable? And, before you answer that, when I say "re-regulate," of course, the whole world goes crazy. I mean, I've seen CEOs

of railroad companies levitate, to the extent that they could levitate.

[Laughter.]

Senator ROCKEFELLER. It is a horrible word. So, we banish that word from the dictionary, and we use creative, alternative thinking to help Americans arrive at their just fruits, and communities which do everything they can in the world to try and make that attractive. Could you both live with an effort that Secretary Steinberg and a number of us made, which potentially could end up being in law? Or being in practice? Where smaller communities were served? Not just by Essential Air Service—you've got to have at least three flights a day to do anything, OK? That—you don't exist if you don't have three flights a day. Would you be willing to listen to a construct of that sort?

Mr. GRINSTEIN. The answer is, I would welcome the opportunity, on behalf of Delta, to work with the Department of Transportation to see if we can come up with something that addresses that.

I think what you're talking about is something that recognizes, simultaneously, the needs of those small communities and also is something that the airlines can do to provide adequate service, and still work toward replacing their fleet and making all the kind of human and material investment—

Senator ROCKEFELLER. Well, I was saying something more, I was saying something that Senator Dorgan said, former professor of economics, as we all know. And that is, that he believes fully in the free market system, but there has to be a referee.

Small American communities, who have real Americans who go to war, to fight and do all kinds of good things for this country have a right to a future. Would you be willing to contemplate a referee of how—whatever description—to see if we can solve that problem?

Mr. GRINSTEIN. If we can work with you toward defining the role of that referee, the answer is yes.

Senator ROCKEFELLER. That's not an answer.

[Laughter.]

Senator ROCKEFELLER. You have to work with the Secretary of Transportation.

Mr. GRINSTEIN. OK.

Senator ROCKEFELLER. I will work with him, and therefore you will be working with me, but you'll be working with him, so there will be something more official about it.

Mr. PARKER. My answer is yes.

Senator ROCKEFELLER. Thank you.

Senator Dorgan?

Senator DORGAN. Mr. Chairman, I saw that pained look on your face when I came back—

[Laughter.]

Senator ROCKEFELLER. No, no. I was worried that you weren't going to stay long enough.

[Laughter.]

Senator DORGAN. Right. Mr. Chairman, I should confess at the outset, I have been wrong about things with the airlines from time to time. And I—at a previous hearing we had airline CEOs come and testify, and it was during restructuring and when everything

was changing, and I said to them—they talked about their new market plan was to sell food to passengers, and I said, “I would like very much to get the list of the names of people who are actually willing to pay for airline food, I have some things to sell them myself.”

[Laughter.]

Senator DORGAN. It turns out I was wrong about that, I’ve actually been on airplanes and watched people buy food, so congratulations.

It is, you know, the airline industry is absolutely essential to this country. This country’s economy cannot exist without a health airline industry. And, I think my colleague just described it very well a moment ago, my colleague, Senator Rockefeller. There are plenty of areas in this country where, but for better airline service, there would be companies that might well want to do business there, might well want to create a plant there, hire some people there. But, they see where that community is with respect to airline service, there’s one airline coming in there, because they’ve dominated a hub and they’re on the spoke—nobody else is going to show up to compete, because that’s not the way the system works anymore. So, they’re consigned forever to inadequate service.

And that—the reason I wanted to come back is just to explore this tension between the market system—Mr. Steinberg, you actually were worshipping in a couple of spots in this statement of the marketplace, which I have great respect for. “By deregulating the airline industry,” I’m quoting you, “Congress set the U.S. Government permanently on the path away from intervention in the marketplace.”

You know, some things are universal in nature. For example, telecommunications—we work on that. We decide it’s much higher cost for telephone units in my hometown of 300 people—much higher cost per unit, than in Chicago. But, we have a Universal Service Fund to drive down those costs in high-cost areas. Why? Because universal service is important. A telephone in my hometown makes the telephone in Donald Trump’s office more valuable, because he can call my hometown, not that he would.

[Laughter.]

Senator DORGAN. But, you understand my point?

Mr. STEINBERG. Yes.

Senator DORGAN. The same is true with air service. Not that everybody should get it, but that countries should not have a divide in which you’ve got great service, multiple choices, lower prices, then you’ve got folks out at the end of a spoke that are stuck.

And, Dr. Cooper, you’ve talked about this some, let me ask you this question, and then, I see my colleague Senator McCaskill’s here and wants to inquire. If a hub-and-spoke system did not exist in this country at this point, isn’t it the case that many areas—far more areas—would have no service. Is anybody going to come in and say, “You know, the city pairs I want to serve—I want to create an airline, because I want to serve from Bismarck to Eau Claire, Wisconsin, non-stop.” It won’t happen.

So, what happens if a hub-and-spoke system does not exist?

Dr. COOPER. Senator, you use the word “pick,” that the new entrants “pick” the cities—I use the word “cherry pick,” which gives

it a different connotation, because that's exactly what will happen. We will lose these network carriers, that's my first response.

My second response is, we actually forget our history. I understand regulation is a dirty word and I said unregulated, but the point, we forget that we did not build these networks without substantial infusion of public funds—both railroad and airlines, right? We gave away mail contracts and made them very lucrative, we subsidized airports, we gave away land grants, we gave telephone companies franchises. We have never built—this is a vast, underpopulated continent compared to the rest of the world. So, when we build these networks—whether it's telecom or railroads or airlines, we understand that there is a public commitment. Mr. Parker talks about coming back and asking for help—well, some of us look at this as a way you do public finance. And you understand the benefits of making life in rural America bearable.

So we have, we feed ourselves with fewer on the land than anybody else in the history of the planet, by a mile. Precisely because, we understood over the last century that we were one country, and there's a benefit to be had by having a relatively even standard of living.

If you abandon—the challenge in the airline industry, unlike some of the other industries is that, there are lots of places it looks like it could be competitive. And so we've got this, what I called, an airline divide. Just sometimes we talk about the digital divide we're now worried about in telecom in rural areas. So that, you've got this problem of, you can show a significant number of markets where competition can work. And we tend to get the ideological statements that, therefore, we should only do competition. And we stop thinking about how we balance those two, because we have lots of markets where it can't work.

Senator DORGAN. Dr. Cooper, my time is up.

The stakes here are very high. This is a subject that's very important—important to both of the carriers, but important to the entire country, because other carriers will be involved, inevitably. And this has been a, for me, a very interesting opportunity.

I, the Chairman did not, but I did resist the opportunity to talk about railroads, although I've got so much to say about the railroad issue, having worked with Senator Rockefeller on it.

But, I thank all of the witnesses for coming. I think this has been a great dialogue, and an important dialogue on something that's very important to the country.

Senator ROCKEFELLER. And it's about to get even better.

Senator McCaskill?

**STATEMENT OF HON. CLAIRE McCASKILL,  
U.S. SENATOR FROM MISSOURI**

Senator McCASKILL. Thank you, and I thank you, Mr. Chairman for the patience, and Senator Dorgan for continuing to find out good information while I had an opportunity to get here.

Let me first ask—thank you all for being here this morning—let me first ask the two CEOs to give us the total amount of money that your airlines received from taxpayers since 9/11?

Mr. PARKER. Received from taxpayers—the U.S.—again, I'll do my best.

The old America West received a loan guarantee per the Air Transportation Stabilization Act of—by recollection—\$400 million. I believe US Airways received one of approximately a billion dollars, I could be off on that by some amount, so that's \$1.4 billion, and then both airlines shared in their fair share of the \$5 billion that Congress delivered in a grant to airlines, also as part of the same act of 9/11. I don't know what the share of the \$5 billion was, probably something around \$400 or \$500 million.

Mr. GRINSTEIN. Yes, Delta did not get an ATSB loan, they did share in the \$5 billion grant, and my recollection is that it was somewhat less than a billion dollars.

Senator MCCASKILL. And, refresh my memory—were both of your airlines profitable last year?

Mr. PARKER. Ours was—last year being 2006?

Senator MCCASKILL. Yes.

Mr. GRINSTEIN. No. We were in bankruptcy and we were not profitable last year. But a large part of that was the cost of bankruptcy.

Senator MCCASKILL. You know, I have really mixed emotions about this subject. I care very much about the health of American airlines, for many different reasons, but at the same time, I have a great deal of angst over what has happened to the former TWA employees.

Currently, there are only 7 percent of the former TWA workforce that are employed by American Airlines. They have just completed a study of 500 of the furloughed flight attendants. Forty-eight percent of them are 55 or older; 58 percent of them are heads of households; 46 percent of them have not found full-time employment; 16 percent have had to relocate to find employment; 47 percent report their income has been reduced by 50 percent or more; 49 percent have had to tap into their 401Ks, their IRAs and other retirement funds; 42 percent have received Federal, state or local charitable aid; 36 percent have had to move or downsize; 35 percent have depleted 75 percent or more of their savings; 42 percent have been diagnosed with a medical condition since furlough; 31 percent report their children's educational needs have been adversely impacted; and 81 percent report their lifestyle has been negatively impacted since furlough.

And, of course, I understand 9/11 happened. But, I also do know that the CEO of American said to Congress at that time how they were going to take care of the TWA employees. And TWA—American was profitable last year, I know they've struggled, but they were profitable last year, and now we have a looming issue that, I think, has to be addressed by Congress, which is the recall rights of some of those employees, that their recall rights are expiring. And some think they're expiring because American's waiting them out, because of their seniority and the financial impact their re-employment would have on American. And if they just wait them out past the 5 years, then they can hire anew, and avoid a lot of the legacy costs.

So, I would—and by the way, we still don't have an American flight between Kansas City and St. Louis. I believe they're going to announce a new flight in Missouri, which I'm thrilled about, and I congratulate them on that, but we have one option. We're not

talking about between, the end-of-the-food-chain. We're talking about two major metropolitan areas in Missouri, and there's one option for travelers.

And, so I would appreciate Mr. Parker and Mr. Grinstein, and Mr. Steinberg, your comments on that.

Mr. PARKER. I'm first, I guess.

Again, without—in fairness to the people in American, who I can't speak for, and how that happened, and what commitments they made, what I can tell you is—the statistics you rattled off about the TWA employees, unfortunately can be said about a lot of employees in our industry. It happened worse to TWA in total, because, one, that airline was near liquidation when American acquired it, and in doing so made the choice to put the TWA employees at the bottom of the seniority scales in most cases. So, when 9/11 hit, and American had to do furloughs—like all of us did—those people were gone first. And I'm just—explaining facts, not an opinion as to why that—if that was fair or not. But that's what happened to those employees.

Those employees suffered, you know, again, the unfortunate statistics you rattled off can be said about US Airways employees, Delta employees, all employees of legacy airlines who have gone through enormous angst.

So, at any rate, what that means as it relates to this transaction, you know, all I can tell you, Senator, our view is, by putting these two companies together, we make them stronger. And we're looking to make a stronger airline.

I am not making promises that I do not believe, and I do not do that, and I wouldn't do that—everything that I've said about commitment to fares, commitment to services are things I believe and that we will do. And that I tell you with all sincerity.

So, again, it's hard for me to try and—to try and, you know, go and, go back to what happened in 2000 with American and TWA and use that to explain what can happen here. But all I can tell you is, I do not believe it's a parallel situation because—and what I can tell you for certain is, I would ask that you don't take the fact that people made commitments to you, and then—for whatever reason—weren't able to—

Senator McCASKILL. Well, I wasn't here, I'm new.

Mr. PARKER. Your constituents. Weren't here, and weren't able to deliver upon them. I would just ask that you don't hold that against us, and the commitments we're making, because we make these in all earnestness, and that's what we believe is going to happen.

Mr. STEINBERG. Thank you, Senator.

The last 5 years has been, you know, as I said earlier, very painful for employees across the board. And, I think, something like we saw in that loss in jobs of about 155,000 in the airline industry, and obviously, the TWA jobs were part of that. So, there has been considerable pain, across the board.

I agree with Mr. Parker that—as I recall it, at the time, TWA was in very dire straits. It's not, you know, therefore, you know, clear looking back that they would have survived, and you wouldn't have had the same kinds of very painful dislocations.

The best way to prevent this from happening, again, is to ensure that we have an industry that can both produce low fares, and profits for its owners and increase employment. Over time, cities like St. Louis have had difficulty, historically, supporting a hub. And that's just simply a function of the size of the population and the size of the local economy. As the economy improves, I think you'll see, you know, the possibility of more service.

Senator MCCASKILL. Yes, because now our taxpayers have invested a lot of money in a new runway.

Mr. STEINBERG. Yes, and you have a great—

Senator MCCASKILL. We have a saying—

Mr. STEINBERG.—a great airport.

Senator MCCASKILL.—“if you build it, they will come”?

Mr. STEINBERG. Yes.

Senator MCCASKILL. Well, we only hope.

Mr. STEINBERG. Thank you.

Mr. GRINSTEIN. One of the reasons why we're so opposed to this merger is that it contemplates taking out 10 percent of the fleet of Delta, which is 200 aircraft. And, what you'd be looking at—despite all of the assurances that you're going to maintain employment at the same level—200 aircraft is about the size of AirTran Airways—it is a large change. And there is no way you can maintain all of the employment that goes with it and at the same time meet debt obligations and handle that.

In terms of the situation in St. Louis—I am sure that the American executives that promised that there would be more international service, more flying, more employment, and everything else, meant every word of it. I am sure that they were as committed to it as Mr. Parker is.

But, it is a volatile industry, and there are changes that take place, and there is no one to enforce those—it is not a contract. It is not something that is signed, that you can check on and enforce performance. So, at the end of the day, you can take their word for it, but circumstances will come along. And if you take a look at St. Louis today, they have 60 percent fewer flights, they have 73 percent fewer seats in that market. The thought that LCCs will come in has not proved accurate, because Southwest Airlines has reduced its flying by about 18 percent.

So, while I hope that things work out with the runway, it is just an indicator of the kind of things—that there is no one to enforce. And you don't have any international service, in Mexico and Canada, except one flight a week to Puerto Vallarta.

Senator MCCASKILL. And I want to be fair to American—I do know that one of the reasons that the TWA folks got stapled at the bottom had to do with decisions within the various unions at American at the time, and wasn't completely within the control of the corporate structure.

But saying that—I opened with my questions about the taxpayer money because, you know, I think—I don't want to lose sight of the fact that we had a national catastrophe. And I think the Federal Government responded to do what was necessary to help this industry because of that catastrophe.

But implicit in that, I think, is an agreement that there be fair treatment to the men and women who lost their jobs as a result

of that catastrophe. And I worry that in, in some of the decision-making that's going on—I understand the bottom line, and I understand the need for profit. But, I think there have been so many examples that we have seen in corporate America, where the decisions have not been as accommodating to the people at the middle and the bottom, as they have been to those at the very, very top.

You know, mediocre CEOs are getting hundreds of millions of dollars. Somebody who's spent 40 years of their lives making sure that the people who traveled on TWA were doing so safely, are out of work. And meanwhile, the taxpayers have spent, literally, billions of dollars trying to bail out this industry.

And, I just didn't want this hearing to conclude without expressing how strongly I feel that, if there are going to be mergers—which I have a lot of trepidation about, based on Dr. Cooper's testimony and other readings I've done—I, for one, am going to be hollering about these people and their security, and their pensions, and their ability to—and there is no reason why—no one, I don't think anyone is asking that the TWA employees be put back to work. I think what they're saying is, I think, that they're willing to make concessions. I think what they're saying is, to wait out our recall rights—under the circumstances of hundreds of millions of dollars of taxpayer money flowing to that airline—to wait them out, to me, just seems fundamentally unfair.

Yes, Mr. Roach?

Mr. ROACH. Yes, I'm a TWA employee. These two gentlemen over here are former TWA employees out of St. Louis. And what happened to TWA is that—is the same thing that could happen here, with US Airways and Delta. The fact the transition was not completed when they took TWA over, the fact that the seniority issue was not resolved, and it was left to a political process rather than a business process—all of those TWA people went to the bottom.

I don't really have much to say, I, people have been asking all of these—I'm the employee representative here. And the fact remains, you can't take 10,000 people, and say you're going to float around the airports until you decide to retire. What we are proposing to America West and US Airways is that, we guarantee work. We bring work in-house, similar to what American is doing, through efficiency process, bring money to the bottom line, those people will have something to do.

So, there are a lot of things that have to happen here. And, to be quite frank, an experienced team—and that's why we're trying to work with Mr. Parker, on US Airways/America West, to give him that experience—because some of things that he's said are well-meaning, are not plausible in the real world. I've been in this industry 30 years. We could work with him, but he'd have to finish this transaction first.

You see, you can't have Delta Airline employees with one pension plan, and US Airways with another pension plan—the law don't allow it. We have to have a transition agreement, we have to put all of those things together.

We're trying to resolve those issues, right now. Yes, this very panel. I was at the doctor's office yesterday, a lady pulled up to me, she said, "I'm from TWA, I lost my job, I had to go back to school and relocate," Jerry Mitchell. She said, "Give them my phone num-

ber if you want me to call them.” These transactions are very difficult. The process is very difficult. And as well-meaning as people might be, they just don’t come easy.

And therefore—I’m going to say it again—you’ve got to finish transaction one, before you go to transaction two. You cannot put together a maintenance program—when you don’t have a maintenance program at US Airways, you cannot put a maintenance program in again at Delta Air Lines. It is impossible.

We’re willing to work with them, we’ve got a proposal on the table to resolve those issues. And if you can’t resolve those issues on US Airways and America West, you damn sure can’t—excuse my language—resolve them on Delta Air Lines.

Senator MCCASKILL. Your language is excused.

[Laughter.]

Senator MCCASKILL. Thank you, Mr. Roach.

Thank you all, very much.

Thank you, Mr. Chairman.

Senator ROCKEFELLER. Thank you very much, Senator McCaskill.

I have two things to say: Number one, is that I think this has been a really, really useful hearing. And, one of the things that has happened to me during the course of it is that I have sort of taken on another iteration. And that is the health of—that America is fair. We may or may not be, should be in Iraq—that’s for everybody to decide. But, we have a fair system. Little states have two Senators, huge states have two Senators—it makes no difference, we’re based upon equality. We don’t live up to it always, but that is our standard.

And, what strikes me is that, in the automobile industry, General Motors never paid any attention, until Toyota and Nissan came into Southern California and had a friendly air pollution-control district in that area, and then 10 years later, General Motors began to pay a little bit of attention. You don’t have that. You don’t—you have foreign competition, but you don’t have foreign competition for little places.

Therefore, I am very intrigued, Secretary Steinberg, by your coming workload. And that is to try and find a way which does—and only the silliest person could say that this invalidates the American culture, corporate culture or otherwise—it’s simply trying to solve a problem for people who need a problem solved. Amongst whom are many absolutely brilliant entrepreneurs, if they were given a chance. Or even if they’re not.

So, I want this to be—this has been a very long hearing, and I apologize to all of those who have had to stand, and those who’ve squiggled and wormed, squirmed and all of the rest of it—I don’t care. It’s been a really good hearing. And we have a new concept on the table here: How can we be fair; and genuinely be fair, to small communities?

And the small communities are not to be categorized as the disadvantaged. They’re not to be categorized as some attention deficit disorder group of people—they deserve our help, and I, as Chairman of this Committee, am determined to deliver it to them.

So that, we have agreed, Secretary Steinberg, that you, my staff, and others—and I assume the help of Mr. Grinstein, and Mr. Parker, Dr. Cooper, you, sir—that we are going to figure out some

way to try and make this work. Let us not fall down on the angst that's been caused by the word regulation or re-regulation. That's stupid. We're above that.

My announcement, finally, is that the next meeting of the Commerce Committee will be at 2:30 on January 31 for an Executive Session to consider the Committee's budget resolution—you won't want to miss that.

[Laughter.]

Senator ROCKEFELLER. Followed by a hearing on promoting travel to America an examination of economic and security concerns.

I thank you all, the hearing is adjourned.

[Whereupon, at 1:15 p.m., the hearing was adjourned.]



## A P P E N D I X

PREPARED STATEMENT OF HON. TED STEVENS, U.S. SENATOR FROM ALASKA

Chairman Inouye, thank you for scheduling our hearing today on the state of the airline industry and the potential impact of airline industry mergers and consolidation. I would also like to thank our witnesses for their participation.

Since Congress passed the Airline Deregulation Act in 1978, the airline industry has experienced its fair share of mergers, acquisitions, liquidations, and consolidation. The face of the airline industry is always evolving and the free market has proven to be beneficial to the airline industry and the flying public.

The airline industry is still in a time of transition, and is re-making itself in the aftermath of the September 11th attacks. We have seen a number of bankruptcies, but the overall health of the airline industry seems to be improving as tough restructuring plans are completed and implemented. The line between the low-cost carriers and the legacy carriers draws closer each day.

Today, I am hopeful the Committee does not get bogged down in the details of one proposed merger, but looks at the overall health of the airline industry as we move forward.

Congress created a merger process, and if a large-scale airline merger is proposed, I expect the Department of Justice and the Department of Transportation to thoroughly review the implications. Congress should be hesitant to get involved in any one merger.

I remain open to the idea of airline consolidation, if it leads to an improved economic health of the industry. If a merger makes business sense for the companies and the traveling public is not adversely impacted, I don't see why Congress should get involved.

I welcome our witnesses and look forward to the testimony.

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PREPARED STATEMENT OF HON. JOHN MCCAIN, U.S. SENATOR FROM ARIZONA

The viability of the airline industry has been an issue as long as I have been in Congress. One hundred and sixty two carriers have filed for bankruptcy since deregulation in 1978, which means that nearly every major airline has filed for bankruptcy at some point and some more than once.

The airline industry lost more than \$30 billion between 2001 and 2005, with the legacy airlines accounting for more than \$28 billion of these losses. These losses came about *despite* Congress providing \$5 billion in direct compensation to the airlines, \$10 billion in loan guarantees, insurance aid, pension assistance, and liability protection.

There has been a bit of good news recently for the large carriers. Several legacy carriers posted profits in 2006 for the first time in 5 years, while several low-cost carriers did not. This led the *Wall Street Journal* to write a headline that was unthinkable just a year ago: "Legacy Airlines may Outfly Discount Rivals." Airline analysts expect the industry to earn about \$1.1 billion in 2006, which would be the first industry profit since 2000, and earn a record profit in 2007 of \$6.1 billion.

Today we meet to review the most recent proposed consolidations of US Airways and Delta, and AirTran and MidWest Airlines. Some believe consolidation is necessary to maintain the health of the industry, while others believe such consolidation may reduce competition and harm consumers. If history provides any insight, markets have generally become more competitive as the industry consolidates. According to a 2005 GAO report, the average number of competitors increased from 2.2 per market in 1980 to 3.5 in 2005.

It is important to remember, however, that history is not the determining factor. The Department of Justice will perform a thorough antitrust review. The Department has scrutinized numerous airline mergers and consolidations, and I respect its role in the review process and look forward to the Department's findings.

The current condition of the industry and its future prospects are of paramount concern. There is no dispute about the importance of aviation to our national economy and I hope Congress can continue to work with the industry to ensure a robust national air transportation system.

I thank our witnesses for being here and hope they will be able to shed light on what the future holds for the industry.

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PREPARED STATEMENT OF HON. TRENT LOTT, U.S. SENATOR FROM MISSISSIPPI

I am pleased that the Committee is having this hearing today to look at the economic health of the airline industry. As we all know, the airlines have gone through some very difficult times since 9/11. Many of them have been through bankruptcy and very painful restructuring.

But recently things seem to be improving. Carriers are emerging from bankruptcy and some are even making money. So it is very appropriate for this Committee to get an update on the financial state of the industry. We want to know if things are truly getting better and if the industry has turned the corner, or if this is just a temporary situation. We also should discuss what, if any, public policy changes we should consider to improve the health of the industry. Since we have a major aviation reauthorization bill this year that we need to pass, this is a very timely discussion.

There will also be lots of discussion today about possible mergers between various airlines. I hope we don't get too caught up in debating the pros and cons on any particular merger and lose sight of the big picture.

I have to say that I generally don't see anything wrong with mergers. If the private markets decide that it makes financial and economic sense to merge one or more companies, I am not sure that Government should second guess such a decision. In my view, there eventually will be mergers in the airlines industry and there probably should be. As we have seen, the current size and structure of the industry has resulted in massive losses over the last years with devastating effects on employees. So maybe we should let some of these companies merge and see what happens. Could it actually get worse?

Of course, I am not sure that the merger between US Air and Delta is the best possible combination. There may be other combinations that may make sense from a financial or industry perspective.

Finally, Congress has set up a process as the Department of Justice and at the Department of Transportation to review mergers. If we get to the point where this merger goes forward, then that process should run its course. I don't think Congress should intervene legislatively while the merger is under review.

I look forward to hearing from the witnesses.

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PREPARED STATEMENT OF HON. JOHN THUNE, U.S. SENATOR FROM SOUTH DAKOTA

Chairman Inouye, Vice Chairman Stevens, other Members of the Committee, thank you for holding this hearing today. I would also like to thank our witnesses for taking time out of their busy schedules to testify before our Committee today.

Air travel is vital to our Nation's economy and the airline industry is at an important point in its history. The industry is recovering and moving past pre-9/11 high marks in terms of passengers and other metrics. Many of the legacy carriers have gone through bankruptcy and reworked their debt and their overhead costs. Many observers are hoping our airlines will soon start running in the black. How the airline industry reacts to market pressures, along with how Congress and the Federal regulatory agencies treat the airline industry, could have consequences on air travel into the next generation. This means we all better get it right. It is my hope that the airlines, along with the government regulators can strike the balance between the need for efficiencies and the need for competition. Air travelers will win if the airline industry has the right balance of scale efficiencies and healthy competition. I hope we can get there.

CONGRESS OF THE UNITED STATES  
*Washington, DC, January 23, 2007*

Hon. JAMES OBERSTAR,  
 Chair,  
 House Committee on Transportation and Infrastructure,  
 Hon. PETER F. COSTELLO,  
 Chair,  
 House Subcommittee on Aviation,  
 Committee on Transportation and Infrastructure,  
 Washington, DC.

Dear Chairman Oberstar and Chairman Costello:

Please accept our belated congratulations on your new positions. We write to express our strong support for your plans to conduct hearings on airline consolidation's effect on American workers and travelers.

Given the recent increase in airline mergers, we feel that it is timely for a comprehensive assessment of airline mergers and its affect on communities across the Nation. As you know, the Senate Committee on Commerce, Science, and Transportation plans a public review of this issue tomorrow.

Two weeks ago, US Airways increased its hostile takeover bid to \$10.2 billion in its attempt to acquire Delta Air Lines. If successful, this merger would create the world's largest airline. Our constituents have expressed concerns that the proposed union could result in significant job loss, fewer seats, and higher ticket prices.

Delta currently employs about 50,000 people nationwide more than half of whom are employed in the Atlanta area. As a result of the merger, 3,000 jobs will be lost in the Atlanta headquarters and an additional 2,200 positions in the region. The proposed 10 percent capacity reduction of a merged Delta-US Airways could also lead to the loss of thousands of jobs across the country.

The two carriers' overlapping flight routes further impress the national impact of airline mergers. Many are concerned that in 25 eastern and southern airports, the combined Delta and US Airways would become the dominant carrier, carrying more than half of the capacity at the airport. The negative impact on these airports and the communities and passengers they serve could be disproportionately high. For example, airline travelers could witness reductions in flight options and increases in airfare prices.

Finally, we would like to underscore the need for Congressional investigation and oversight on the history of airline mergers and bankruptcy from the perspective of the average airline employee. In the case of Delta, a loyal and determined workforce of mechanics, flight attendants, pilots, reservation clerks, ground crews, and others have sacrificed a lot, including cuts in wages and pensions, to keep Delta operating and help its emergence from bankruptcy. US Airways is currently working to address its current America West merger problems that include numerous computer and service complications, multiple un-integrated labor contracts, and a variety of complaints from current employees about issues of seniority, pay, and benefits. The morale and economic impact of the airline consolidation movement on these hard-working Americans should be a component of your investigations.

A robust Congressional review of how the Delta-US Airways and other industry mergers affect airline employees and air travelers around the country is much needed. We appreciate your attention to this important issue.

Sincerely,

Members of Congress: John Lewis, David Scott, John Barrow, Henry C.  
 "Hank" Johnson, Jr., Sanford D. Bishop, and Jim Marshall.

cc: The Hon. Lynn. A. Westmoreland and Hon. Daniel K. Inouye.

GOVERNMENT OF THE DISTRICT OF COLUMBIA,  
OFFICE OF THE ATTORNEY GENERAL  
*Via electronic transmission (January 23, 2007)*

Hon. DANIEL K. INOUE,  
Chairman,  
Senate Committee on Commerce, Science, and Transportation,  
Washington, DC.

Re: Comments on proposed US Airways-Delta Air Lines Merger for Committee's  
January 24, 2007 Hearing To Examine the Potential Impact of Airline Mergers  
and Industry Consolidation on the Airline Industry

Dear Senator Inouye:

I am writing to support the Committee's examination of the potential impact of mergers and industry consolidation on the airline industry. My Office is currently participating in a multi-state attorney general inquiry into the antitrust issues raised by the proposed US Airways-Delta Air Lines merger. Although our inquiry has not been completed and no conclusion has been reached regarding a merger's overall effect on competition, my staff has identified several issues that may help to focus the Committee's work in this area:

**1. How Would a Merger Affect Competition at Major, Capacity-Constrained Airports, Like Ronald Reagan Washington National Airport (DCA)?**

DCA is the airport of choice for many of those who visit the District of Columbia for governmental or commercial business. Compared to other area airports, DCA is particularly convenient for travelers who wish to leave D.C. during the late afternoon-to-evening rush hour period.

In addition, DCA is a capacity-constrained airport with limited slots. US Airways operates approximately 47 percent of these slots and Delta Air Lines operates about another 14 percent. A combined US Airways/Delta Air Lines, with about 60 percent of the slots at DCA, may be able to exercise market power and charge an increased premium for selected categories of passengers flying to and from DCA, such as business class passengers on certain routes. Another capacity-constrained airport where US Airways and Delta Air Lines together operate a majority of the slots is New York's LaGuardia Airport (LGA).

**2. How Would the Merger Affect Competition in the Provision of Shuttle Flights Between the Washington, D.C., New York, and Boston Areas?**

Currently, U.S. Airways and Delta Air Lines are the only airlines offering shuttle service between DCA and LGA. Absent divestiture of substantial shuttle operations to a strong competitor, a combined US Airways/Delta Air Lines would dominate shuttle service between the Washington, D.C., New York, and Boston areas. Shuttle service between capacity-constrained airports, like DCA, LGA, and Boston's Logan International Airport (BOS), would seem to be especially vulnerable to exercises of market power by a dominant provider because potential competitors are likely to find it relatively difficult to introduce or expand service at these airports.

**3. How Would the Merger Affect Competition in the Provision of Airline Service Between Areas With Hub Airports, Like the Washington, D.C. Area, and Small Cities?**

A US Airways/Delta Air Lines merger could have a disproportionately adverse impact on competition in the provision of airline service between major metropolitan areas and small cities.

Airlines that have hub operations in the Washington, D.C. area—including US Airways and Delta Air Lines at DCA, and United Airlines at Washington Dulles International Airport (IAD)—may have a competitive advantage in the provision of service to small cities. These airlines are able to offer flights to and from small cities that serve: (1) to connect the small cities to the Washington, D.C. area as a point of origin or destination; and (2) to connect the small cities to other cities, using a Washington, D.C.-area airport as a hub. In many cases, it may be the availability of passengers who are using a Washington, D.C.-area airport only as a hub that allows an airline to fill the large planes that can provide economical service between the Washington, D.C. area and many small cities.

If, following a merger, hub operations at DCA and IAD were largely controlled by US Airways/Delta Air Lines and United Airlines, these airlines could have the potential to dominate service between the Washington, D.C. area and small cities. Competitors lacking a hub-like presence in the area may find it difficult or impossible to maintain competitive service on these routes, as illustrated by Independence Air's unsuccessful effort to offer many flights between small cities and IAD. Since

Independence Air's exit from the market about a year ago, airfares have increased dramatically on many routes from IAD and DCA.

#### 4. How Would the Merger Affect Overall Trends in the Airline Industry?

Because US Airways and Delta Air Lines operate large, overlapping networks, a merger would have the potential to affect competition with respect to numerous city pairs over a large portion of the United States. On routes now served by both airlines, adverse competitive effects may include higher ticket prices and discontinuation of currently scheduled flights. In addition, a merger of this size could rapidly trigger "defensive mergers" by other major airlines, leading to what Kevin Mitchell, the Chairman of the Business Travel Coalition, warns could be the "tsunami" of airline industry consolidation most feared by business travel advocates." (quoted by *CNNMoney.com*, Dec. 13, 2006, [http://money.cnn.com/2006/12/13/news/companies/airlines\\_mergers/index.htm](http://money.cnn.com/2006/12/13/news/companies/airlines_mergers/index.htm)).

#### Conclusion

Any anti-competitive effects of a merger of US Airways and Delta Air Lines would have the potential to increase prices and reduce service for many routes serving the Washington, D.C. area, as well as for many more routes serving other areas of the country. In addition, such a merger could trigger a series of defensive mergers leading to much greater industry consolidation in a relatively short period of time.

Thank you for the opportunity to share with you some of the issues that we have identified in the course of our inquiry. Should your Committee hold further hearings on the issue of airline industry consolidation, the state attorneys general participating in this multi-state effort—as well as those participating in the broader Airline Working Group of state attorneys general—would welcome the opportunity to present further information and analysis for your consideration.

Any requests from the Committee's staff regarding this matter should be directed to Senior Assistant Attorney General Don A. Resnikoff.

Very truly yours,

LINDA SINGER,  
*Acting Attorney General for the District of Columbia*

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#### PREPARED STATEMENT OF THE AIRCRAFT MECHANICS FRATERNAL ASSOCIATION

I am Stephen MacFarlane, Assistant National Director for the Aircraft Mechanics Fraternal Association (AMFA), a craft union representing nearly 9,700 aviation mechanics and related employees at United, Alaska, Southwest, Northwest, Mesaba, Horizon, and ATA. I am writing to share my organization's concerns regarding mergers and consolidation within the airline industry. We understand that consolidation within the industry is likely, and we are not necessarily opposed to consolidation *per se*, however, AMFA believes there are facts that Congress should take into consideration regarding any proposed merger.

Having endured devastating job losses and drastic reductions in pay and benefits coerced from airline workers throughout the industry over the past 5 years, we can't help but flinch at the prospect of another corporate tactic that has the potential of delivering yet another blow to the livelihoods of airline workers.

The government has already provided great assistance to the airline industry in the form of the ATSB, where \$5B in taxpayer dollars was given to the industry without any guidance as to how the airlines were to spend the money. Another \$10B was made available for loans to assist the ailing industry. While this is laudable, no help was forthcoming to the tens of thousands of workers who lost their jobs as a result of the 9/11 terrorist attacks.

Additionally, Federal bankruptcy laws, never intended to be used as a strategic tool for competitive purposes, were turned against workers as Federal judges aided executive management teams in extracting severe, painful, and permanent concessions from American airline workers.

During mergers of airlines in the 1970s and 1980s the government recognized the peril to workers that mergers presented and insured that workers were not abused by these business transactions. In 1972, with the merger of Allegheny Airlines and Mohawk Airlines, Labor Protective Provisions (LPP's) were established to prevent corporations from using mergers as a means to circumvent labor contracts. In light of the devastation delivered to tens of thousands of airline workers in the form of terminated pensions, twenty-five percent and greater pay reductions, increased medical premiums, and permanent job losses it would be proper for the 110th Congress to once again enact these protections so that airline workers are not unnecessarily

placed in peril at the hands of another government-sanctioned industry consolidation.

Sections 3 and 13 of the LPP's set out the criteria for merging carriers' workforces and the time-frame in which to accomplish this oftentimes difficult task. The provisions ensure, rightly, the maintaining of seniority lists and collective bargaining agreements for employee groups, as well as spelling out a framework for arbitration in the event that the merging of workforces does not go smoothly. As the US Air/AmericaWest situation shows us, the need for a concrete time-frame in these matters is imperative, as the merged carrier remains without a maintenance program and a collectively bargained agreement for its yet-to-be-merged workforce. Furthermore, if as Mr. Parker claims, there would be no employee furloughs or layoffs, it follows that the LPP's should be enacted for the simple reason that they are apparently benign in this situation.

Mr. Chairman, we acknowledge the value and benefit of having a viable airline industry that provides great mobility and swift commerce for our nation, however, the other part of the equation is a stable and productive middle-class that contributes to the economic vibrance and tax base of the American economy. Labor Protective Provisions must be a part of any mergers that are approved by the Federal Government to ensure a balance of power exists between workers and corporations.

Airline workers are already smarting from the last bus that ran us over, please do not give the corporations another green light to mow us down once again.

Having worked in the airline industry for twenty-five years and lived through two mergers, Hughes Airwest/Republic and Republic/Northwest, I can attest first-hand to the harm that can befall workers caught up in airline mergers. If you have any questions or concerns that I might address please contact me.

Thank you.

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PREPARED STATEMENT OF EDWARD P. FABERMAN, EXECUTIVE DIRECTOR,  
AIR CARRIER ASSOCIATION OF AMERICA

### **Introduction**

Mr. Chairman and Members of the Committee, as Executive Director of the Air Carrier Association of America (ACAA), an organization that represents low-fare/high-service carriers and the communities they serve, I am very happy to provide comments on the effect of mergers and consolidation on this industry.

This hearing comes at a time when extremely limited competition exists in many of the Nation's largest airports and markets. As a result, low-fare carriers are blocked from providing low fares and travel options for many American travelers. It is of utmost importance that we take steps to bring back the benefits of competitive markets, including airfare and air carrier choices for Americans who rely on those options for business, leisure, and last-minute travel.

### **ACAA Members Provide Benefits to Consumers and Communities**

Our air carrier members operate thousands of daily flights to approximately 150 destinations. Their traffic is growing at a rate of about twenty percent (20 percent) per year. These carriers serve large, medium, and small hubs and have various focus cities which include small communities. They offer full-size jet service in most of these markets. By introducing flights in small communities and creating focus markets, these carriers connect those cities to leisure and business markets, as they have done at Akron-Canton Airport, Newport News/Williamsburg International Airport, Southwest Florida International Airport, Atlantic City International Airport, Wichita Mid-Continent Airport, Billings Logan International Airport, and Cheyenne Airport. Once initial entry into a market is made, the carrier can expand beyond the traditional business routes by adding additional service to other destinations. This results in substantial benefits to the local airport and the entire region it serves. In the previously mentioned markets and others, our member carriers have significantly expanded passenger numbers and brought millions of dollars in customer savings and economic growth. They want to expand more in all markets! To continue to add all size communities to their route systems, these carriers must obtain additional access to major business markets such as LaGuardia Airport (LGA) and Ronald Reagan Washington National Airport (DCA), two markets currently closed to expansion. Therefore, we continue to push for open markets consistent with deregulation. If consumer benefits are to exist, it is essential that the government expand competitive options on a day-to-day basis, particularly as the industry experiences further mergers and consolidation.

### Mergers and Consolidation

Since the birth of deregulation, the industry has experienced examples of airline consolidation and mergers and has seen dozens of airlines terminate operations. The industry and the U.S. economy will only remain healthy if *real* competition is allowed to flourish. Unfortunately, *real* competition is currently blocked at many of the Nation's airports. At these airports, mergers could worsen the situation by giving the newly merged airline even greater market and airport dominance. Although we must be cautious about mergers and consolidation, they can also offer opportunities to improve competition and benefit the industry—as long as the government demands spin-offs from the merging carriers to promote competition. In the past, consolidation or bankruptcy has opened the door to new competitive opportunities. In order to ensure that competition does not disappear, merging airlines must be required to spin-off assets that would otherwise increase their market control. In the past, the Department of Justice has required dominant merging carriers to divest certain assets including gates, airport facilities and access to airports. It is expected and important to require the merging carriers to give up some of their assets. By redistributing such resources to limited incumbents and new entrants, mergers can actually improve competition and help build a healthier industry.

It is therefore essential that Congress not only require government agencies to fulfill their responsibilities in promoting competition on a regular basis, but also send a message that mergers between dominant carriers will occur only if considerable assets are made available to other carriers. It is absolutely crucial that the industry have significant competition to survive and thrive, but this is not possible when only a few carriers control the Nation's airports. When proposed mergers are on the table, the highest priority must be to guarantee that they will not further limit competition. If implemented carefully and with an eye toward improving competition, mergers *can* have positive impacts on the competitive state of the industry and can improve travel options for air travelers.

Consumer choice and travel options at individual airports and within the entire industry must be preserved. Consolidation is inevitable, but the industry must take immediate steps to provide opportunities for competition. LGA is one airport severely lacking in travel options because access by new entrants is blocked by government regulations. At LGA, new carriers are only allowed to operate ten roundtrips, while legacy carriers at the same airport have hundreds of arrival and departure authorizations. At DCA the situation is equally extreme—AirTran, Spirit and Frontier only have a few roundtrips, while the legacy carriers dominate with hundreds of flights. The current regulations have not been modified to reflect changes in the industry and this has resulted in some very closed airports, many of which have absolutely no opportunities for new entry. If the Nation's largest carriers are allowed to merge, steps must be taken to preserve competition. Without such steps, mergers could force out limited incumbents and new entrants and some markets could lose all service or be blocked from obtaining low-fare service options.

For these reasons, the US Airways/Delta merger must be put on hold until the carriers demonstrate how they will spin-off assets to ensure that competition expands and is not further limited.

### Conclusion

Even without adding the complication of mergers or consolidation, the government should be continuously taking action to promote competition. Unfortunately, this has not happened, so with mergers on the table, it is now even more important to make changes that foster a strong airline industry. Taking significant assets from the merging airlines and redistributing them to low-cost carriers will provide travel options and consumer benefits. In its review of access to closed airports, DOT/FAA have complete legislative authority to implement control access and airport facilities changes at airports.<sup>1</sup>

<sup>1</sup>The Congestion Management Rule for LaGuardia Airport NPRM, specifically highlights its ability to allocate departure and arrival authorities at restricted airports to promote competition by emphasizing that the Secretary of Transportation is required to consider objectives that further the public interest, including: Keeping available a variety of adequate, economic, efficient, and low-priced air services; placing maximum reliance on competitive market forces and on actual and potential competition; avoiding airline industry conditions that would tend to allow at least one air carrier unreasonably to increase prices, reduce services, or exclude competition in air transportation; encouraging, developing, and maintaining an air transportation system relying on actual and potential competition; encouraging entry into air transportation markets by new and existing air carriers and the continued strengthening of small air carriers to ensure a more effective and competitive airline industry; maintaining a complete and convenient system of scheduled air transportation for small communities; ensuring that consumers in all regions

Continued

It is time to send a message to legacy carriers that competition in this country will be protected and that "Open Skies" is a goal for the United States and not merely for international destinations. Therefore, while mergers are underway, the industry must at the same time make changes freeing up airport facilities for limited incumbents that operate full-size jets.

The choice is to either allow legacy carriers to continue to dominate markets and close doors to competition or to give all consumers true choices. The American public wants choices.

Mr. Chairman, I thank you and the Committee for addressing this important issue. This Committee has in the past been instrumental in promoting competitive options. Without improved access and a more competitive industry, the traveling public will not have the fares and options necessary for business, leisure, and last-minute travel. The merger discussions cannot be considered unless the dream of deregulation and true competition for *all* is fully addressed.

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AMERICAN SOCIETY OF TRAVEL AGENTS  
*Alexandria, VA, January 23, 2007*

Hon. DANIEL K. INOUE,  
Chairman,  
Senate Committee on Commerce, Science, and Transportation,  
Washington, DC.

Dear Mr. Chairman:

The American Society of Travel Agents (ASTA) supports your leadership action in conducting a January 24 hearing on the potential impact of airline mergers and industry consolidation within the U.S. airline industry. At present, while ASTA is reserving judgment regarding particular airline combinations, we remain vigilant of the grave consequences further industry consolidation will have on the Nation's air transportation system.

The threat to competition from airline combinations is extremely serious as it pertains to both consumers and travel sellers. Congress and the Department of Justice should apply the highest standards of scrutiny to any proposals for mergers or acquisitions among major carriers. There is no hard evidence that for sustained periods airline mergers have reduced costs or produced efficiencies that benefit the traveling public.

Historically airlines have used brute market power to shift costs to consumers and travel agents, thus lightening the cost load on their books. These cost shifts are not evidence of efficiencies attributable to consolidation but are a means to disguise the carriers' inability to discard ineffective models of operation.

As the number of major carriers decreases, the airline industry will ultimately see each other as more similar than as different in the way that Southwest Airlines, for example, remains different in today's marketplace. In such circumstances, there is no doubt that the industry's behavior will likely be more parallel rather than competitive in nature. Congress cannot count on Southwest Airlines and JetBlue to maintain competitive vitality in the national carrier industry.

Mr. Chairman, it is crucial that the U.S. air transportation system continue to maintain its competitiveness, which results in better service and lower fares for consumers. ASTA thanks you again for conducting this extremely important hearing.

Sincerely,

CHERYL COREY HUDAK, CTC  
*President.*

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PREPARED STATEMENT OF CAPTAIN LEE MOAK, CHAIRMAN, DELTA MASTER  
EXECUTIVE COUNCIL, AIR LINE PILOTS ASSOCIATION

Good morning. Mr. Chairman, Vice Chairman Stevens, members of the Committee, thank you for providing me the opportunity to submit testimony for today's hearing on the "State of the Airline Industry: the Potential Impact of Airline Mergers and Industry Consolidation" and specifically, how the US Airways' hostile attempt to takeover Delta Air Lines relates to that subject.

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of the United States, including those in small communities and rural and remote areas, have access to affordable, regularly scheduled air service; and acting consistently with obligations of the U.S. Government under international agreements. Congestion Management Rule for LaGuardia Airport; Proposed Rule, 71 Fed. Reg. 51360, August 29, 2006; see also 49 U.S.C. §§ 40101(a)(4), (6), (10)-(13) and (16), and 40105(b) (2005).

My name is Captain Lee Moak, and I am the Chairman of the Delta Master Executive Council of the Air Line Pilots Association (ALPA), the union that represents the 6,500 pilots of Delta Air Lines. I am an international 767 captain and a 19-year employee of Delta Air Lines. Prior to my career at Delta, I served this Nation as a United States Marine Corps fighter pilot, and as I joined Delta, I transitioned to the Naval Air Reserve Force to finish my military career as a U.S. Navy fighter pilot.

I mention my military credentials because as I continue, I want to emphasize that I am proud of my service which included the defense of our American way of life including a free market economy. But our Nation's aviation industry is unique, and careful government scrutiny and oversight must ensure that any potential industry consolidation is in the best interests of the traveling public.

On November 15, 2006, US Airways management announced an unsolicited hostile proposal whereby US Airways would takeover Delta Air Lines in exchange for US Airways stock and borrowed cash (debt).

The employees of Delta Air Lines stand firmly united in our opposition to the US Airways hostile takeover of our company.

#### **Airline Industry Consolidation**

Many leading industry experts suggest, and we recognize, that eventually, industry consolidation is not only likely, but probable and perhaps even inevitable. With that in mind, I want to make the following point:

We support a free market solution that includes *rational* industry consolidation; consolidation that does not lead to reduced service, increased fares and other problems for the industry's constituents.

In the future, *sensible* airline consolidation opportunities may occur. If faced with such an opportunity, the pilots of Delta Air Lines are interested in participating in the "right" consolidation effort, a consensual merger with a rational mix of routes, employees and resources, and with the absence of major antitrust and other detrimental issues. The "right" merger opportunity could draw our support and result in a successful merger that benefits everyone involved—the traveling public, the corporations, the employees, and the communities we serve.

The hostile attempt by US Airways to takeover Delta Air Lines is not that merger.

Instead, US Airway's proposal is an opportunistic effort under this Nation's bankruptcy laws that would harm the traveling public, the communities we serve, and the career prospects of Delta, America West and US Airways employees. As such, the Delta pilots and all Delta employees strongly oppose the US Airways merger attempt and support Delta and its management's efforts to reorganize as a stand-alone company.

#### **Background**

On September 11, 2001, terrorists used commercial airliners as weapons of mass destruction to attack the United States of America. Those events changed our lives forever and also marked the beginning of drastic change for America's aviation industry. The following years were marked by record industry financial losses, skyrocketing oil prices, increased security costs, government-backed loans through the Air Transportation Stabilization Board (ATSB), and numerous airline bankruptcies (including US Airways in bankruptcy twice) and even liquidations.

Delta Air Lines was not immune from the pressures of the post-9/11 environment. The Delta pilots recognized the immensity of the challenges our company faced and in December 2004, the Delta pilots reached a consensual concessionary agreement with Delta management valued at \$5 billion which included a 32.5 percent pay cut. The agreement was designed to help Delta avoid Chapter 11 bankruptcy protection. Despite the term "protection," we knew then as we know now that bankruptcy is a horrible place to be, and we took the action we felt necessary to try and help our company avoid bankruptcy if at all possible.

Unfortunately, despite our enormous concessions, Delta management did file for protection under Chapter 11 of the U.S. Bankruptcy Code in September 2005. At the time, the industry was still hemorrhaging, and many familiar with the economics of the industry believed Delta might not survive.

But to paraphrase Mark Twain, the reports of Delta's demise were greatly exaggerated. Delta has used Chapter 11 to reorganize, a reorganization that has been fueled in large part by further substantial concessions from the Delta pilots and our fellow Delta employees. As a result, less than 18 months after Delta filed for Chapter 11, Delta is poised to emerge from bankruptcy as a strong, stand-alone competitor in today's dynamic marketplace. In short, Delta has used the Chapter 11 reor-

ganization process to make a remarkable financial recovery in a relatively short time (United Airlines spent over 3 years in bankruptcy for example.)

As employees of Delta Air Lines, we are looking forward to Delta's exit from bankruptcy, an exit marked not by a merger or acquisition, but by the emergence of a new, fiscally healthy and competitively strong Delta—a Delta poised for long-term success. But with bankruptcy exit on the horizon, our company has now come under a hostile takeover attack from a competitor. Now that the hard work is almost complete, US Airways and short-term money financiers see an opportunity to profit from Delta's restructuring efforts while at the same time eliminating a major competitor.

Delta management is committed to exiting bankruptcy as a stand-alone airline, and the employees of Delta Air Lines share that commitment.

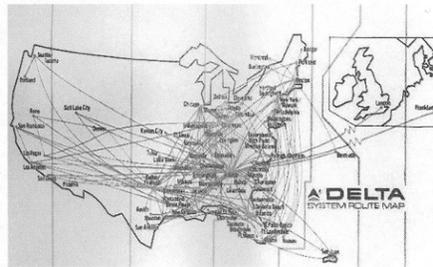
### US Airways/Delta—the Perfect Storm

The US Airways hostile takeover proposal is the wrong merger at the wrong time. A widely diverse group of industry analysts, corporate, labor and government leaders all agree that of all possible merger scenarios, *US Airways and Delta is the single worst possible airline combination*. The proposal is the “perfect storm” of everything that can go wrong with an airline merger, putting at risk the concerns and choices of the traveling public, the communities we serve, employees and even the success of the corporation itself. Today, I want to address just four of the many concerns and how they relate to airline employees:

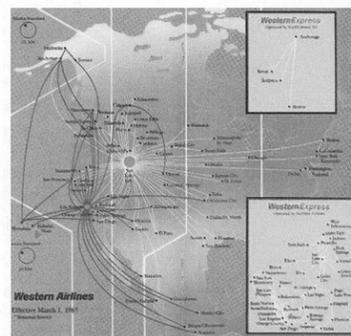
1. Antitrust Issues
2. Operational Issues
3. Labor Issues
4. Financial Issues

#### 1. Antitrust Issues

A *rational* airline merger would ideally consist of a complementary route structure that expands travel opportunities to the traveling public at reduced cost while minimizing route overlap. Synergies would not come at the expense of employees. Take, for example, the case of the Delta/Western merger in 1986. This merger is widely viewed as one of the most successful mergers in aviation history. Below are pre-merger route maps of Delta and Western. Note the strength of Delta in the east and Western in the west.

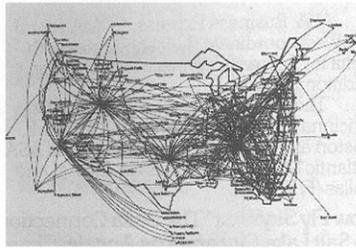


Delta Pre-Merger Route Map



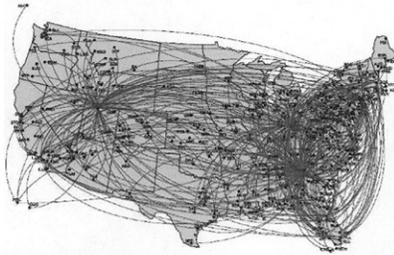
Western Pre-Merger Route Map

An overlay of these two pre-merger route maps demonstrates that with almost no overlap, the merger allowed the combined airline to realize *true* synergy and increased choice for the traveling public while minimizing route overlap, redundant operations, and lost jobs.

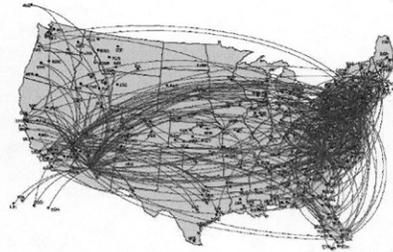


Delta Post-Merger Route Map (1987)

Now contrast that route integration with the one proposed by US Airways management where both Delta and US Airways are strong East Coast carriers.

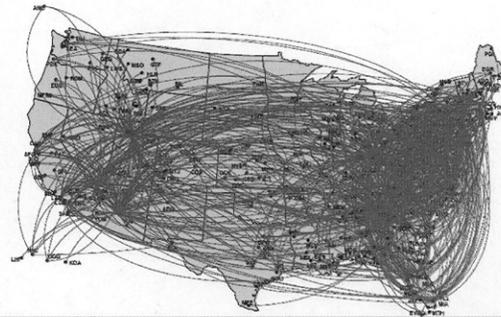


Delta Route Map



US Airways Route Map

An overlay of the combined route structure from US Airways' Investor Presentation paints this disturbing picture.



Delta/US Airways Combined Route Map

The route overlap is staggering. Competition would be reduced on thousands of city-pairs across the Nation. A recent independent analysis<sup>1</sup> showed that the proposed takeover would result in:

- A virtual monopoly on 159 major routes.
- Overlap on 274 major routes.
- A monopoly in seven cities where Delta and US Airways are now the only competitors.

<sup>1</sup>Grantham, Russell, "If Delta and US Airways combine . . . What would a merger look like?", *Atlanta Journal-Constitution*, December 10, 2006.

- More than 50 percent of the flights in key airports such as New York's LaGuardia and Washington's Reagan National airports would be operated by the merged airline.

In addition to the virtual certainty of fare increases, there is the issue of jobs. US Airways management claims that no frontline employee jobs will be lost (never mind that "frontline" has no universal definition), but this is simply not a credible statement. The fact is that their plan calls for "network rationalization" including the divestiture of one of the two Northeast Shuttle operations and at least a 10-percent capacity reduction. US Airways management has also indicated on numerous occasions that they would be more than willing to divest whatever additional routes and assets are necessary to address antitrust concerns, concerns that they claim do not exist in the first place.

This should be a clear indication to all involved that the US Airways proposal is not so much about merging as it is about misusing the bankruptcy process to eviscerate a competitor. With divestitures come job losses and the proposed combined route map speaks for itself. Despite claims by US Airways management, Delta estimates that up to 10,000 jobs would be lost as a result of this merger and we concur with those estimates.

## 2. Operational Issues

Almost 2 years ago, America West merged with US Airways, a bankrupt airline that, unlike Delta, was failing—a rudderless ship foundering on the edge of liquidation. US Airways was in its second bankruptcy in as many years, without a business plan, without a management team, unable to capture revenue or control costs. US Airways was at the mercy of the ATSB and its aircraft lessors, and they were going out of business. Like the current proposal, many promises of synergies were made. But now that America West and US Airways have attempted to consummate the merger, how has that worked out?

- US Airways has failed to integrate facilities at most airports.
- US Airways has failed to integrate their flight operations.
- US Airways has failed to integrate their reservations systems.
- US Airways has failed to integrate their passenger's check-in and passenger handling operations.
- US Airways has failed to merge the seniority lists of their employees.

Recently, my counterpart at US Airways, Captain Jack Stephan, issued this statement:

"Although they have had ample time and opportunity, US Airways hasn't yet merged US Airways and America West, and they have not integrated the pilot groups under one contract. I don't expect that they will be capable of merging a third airline into the fold."

And my counterpart at America West, Captain John McIlvenna, added:

"[US Airways] Management cannot successfully merge without labor on board. . . . US Airways, despite its statements to its investors and the financial community, has not completed the business of integrating US Airways and America West. This failure calls into question their ability to successfully merge three airlines, continue to serve their passengers, deliver dividends to their investors, and maintain a motivated employee base."

Post-merger labor integration is a mess. In fact, in less than 2 weeks, at Reagan National Airport just a short distance away, the US Airways pilots led by their union's Strike Preparation Committee will conduct picketing operations with the theme "*We are at war*," as they escalate their fight for a fair single contract under Doug Parker's definition of a successful merger.

The bottom line? Despite public claims to the contrary, the US Airways/America West merger is far from complete. Captain McIlvenna is absolutely correct—US Airways management cannot successfully merge without labor onboard.

*On behalf of the over 45,000 employees of Delta Air Lines, I am here to testify that we are not onboard for the hostile takeover of our company—not now, not tomorrow, not ever!*

My suggestion to Mr. Parker is this: If you want to run an airline, why don't you start with the one you already have?

## 3. Labor Issues

In addition to the current in-house labor issues that US Airways management has failed to address, US Airways management ignores provisions of the collective bar-

gaining agreement that defines the relationship between Delta Air Lines and its pilots, despite public claims to the contrary. The Delta pilots have worked under a collective bargaining agreement—a labor contract—for almost seven decades. During the course of Delta’s bankruptcy, the Delta pilots and Delta management negotiated a consensual contract at great expense to the Delta pilots. That is one reason the U.S. Trustee appointed ALPA as one of only nine members on the Official Committee of Unsecured Creditors and why ALPA holds one of the largest of all unsecured claims in Delta’s bankruptcy.

The pilot contract was ratified by the Delta pilots and received the approval of Delta management, the Official Committee of Unsecured Creditors and the Bankruptcy Court. That contract contains provisions that are inconsistent with US Airways’ ability to achieve its proposed “synergies.” Given those provisions, many of the proposed synergies will not materialize. Without those materialized synergies, the illusion of financial benefit evaporates.

To date, US Airways management has refused to discuss the pilot contract in anything other than superficial terms and they appear not to even understand its implications. For example, in response to just a single contractual provision, CEO Doug Parker has been quoted as saying, “*We don’t know enough about the contract and how this clause came to be.*” The Delta pilot contract is a part of Delta’s Plan of Reorganization (POR) and must be a part of *any* such POR. Most importantly, the Delta pilot contract is binding on *any* successor or affiliate, including a transaction where Delta is bought by another carrier or holding company.

Pilot contract issues will not go away regardless of how much money is thrown at this merger. Further, the Delta pilots will not change any provision of our contract in order to facilitate the hostile takeover of our company.

#### 4. Financial Issues

There are a number of issues surrounding the financing of this hostile takeover attempt that I’d like to address individually.

The US Airways proposal would burden the combined corporation with well over \$20 billion in debt, more debt than Delta owed when it entered bankruptcy in September 2005, and well over twice the debt of Delta’s stand-alone plan. US Airways management claims the “synergies” of the merger will allow the debt to be serviced. However, the synergies are grossly overstated. Further, any student of the American aviation industry will recognize that airline profits are based on razor-thin margins. Record profits in our industry are on a scale that would cause a management team to be fired in many other industries with similar debt loads. No airline corporation has successfully serviced that level of debt for any substantial length of time.

How can US Airways afford to make this offer? During the course of its own bankruptcies, US Airways dumped *\$5 billion of pension obligations* onto the lap of the Pension Benefit Guaranty Corporation (PBGC). Further, both US Airways and America West took advantage of taxpayer-backed loans through the Air Transportation Stabilization Board, loans that have yet to be fully repaid, and were in fact renegotiated during the merger of US Airways and America West (repayments are scheduled to begin later this year and stretch through 2010). Without those loans, according to Doug Parker, “America West probably wouldn’t have survived and without America West, US Airways probably wouldn’t have survived.”<sup>2</sup> Now, with pension obligations shed and the assistance of the U.S. taxpayer, US Airways is able to attract the financing necessary to prey on their most significant competitor who did not use an ATSB loan and who fought for and successfully saved most of their employee’s pensions. If US Airways is suddenly flush with extra cash, perhaps instead of attempting to abuse this Nation’s bankruptcy laws, those ATSB loans should be repaid and the pensions of their employees reinstated.

Finally, in the area of finances, it is worth looking at who is behind the curtain of this hostile takeover attempt. It is interesting to note that roughly 50 percent of US Airways’ outstanding shares are owned by hedge funds with no long-term interest in the success of either US Airways or Delta. Hedge funds focus on short-term financial gain and thrive on market volatility other investors shun. In addition, you may have heard of moves by a self-anointed *ad hoc* “Unofficial Committee of Unsecured Claimholders” that is supporting Parker’s efforts. These creditors also consist largely of hedge funds and financial institutions with no long-term interest in seeing either Delta or US Airways succeed. They are in it simply for the short-term gain.

The method behind their perceived gains would consist almost solely of forcing Delta Air Lines to remain in bankruptcy longer in order to wrest further concessions from employees and reject leases on aircraft and facilities. Given the unique quali-

<sup>2</sup>McCartney, Scott, “The Middle Seat”, *Wall Street Journal*, May 30, 2006.

ties of our Nation's aviation industry, it is crucial that certain segments of Wall Street not be allowed to drive public policy.

### Conclusion

The American aviation industry has been through the worst period in its history in the last several years. Now, after numerous corporate restructurings, both in and out of bankruptcy, there are strong indications of an industry on the rebound. Capacity is under control; there is no "need" to remove capacity through consolidation. Oil prices have moderated (for now.) Individual airlines have begun to see the fruits of their restructuring efforts and report profits again, several for the first time since 9/11.

If the Committee would indulge me, I would like to conclude by reiterating what I stated at the beginning of my testimony.

In the future, there may be airline merger opportunities that make sense. If faced with the possibility, the Delta pilots are interested in participating in the "right" consolidation effort, a consensual merger with a rational mix of routes, employees and resources, and of the absence of antitrust and other issues that burden the current proposal. The "right" merger opportunity could draw our support and result in a successful merger.

The US Airways proposal is not that merger. Instead, US Airway's proposal is an opportunistic effort under this Nation's bankruptcy laws that would harm the traveling public, the communities we serve, and the career prospects of Delta, America West and US Airways employees. As such, the Delta pilots and all Delta employees strongly oppose the US Airways merger attempt and support Delta and its management's efforts to reorganize as a stand-alone company.

On behalf of the over one hundred thousand active and retired professionals of Delta Air Lines, thank you for the opportunity to be heard.

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COALITION FOR A PASSENGERS' BILL OF RIGHTS

*January 21, 2007*

Hon. DANIEL K. INOUE,  
Chairman,  
Senate Committee on Commerce, Science, and Transportation,  
Washington, DC.

Dear Senator Inouye:

As you may know, a number of us recently endured a terrible and traumatic ordeal at the hands of a major airline during the New Year's holiday. As concerned citizens, we are now respectfully requesting your help in ensuring that our experience of chaos and desperation is never again repeated by any other airline in the U.S.

On December 29, 2006, we were on American Airlines Flight 1348 from San Francisco, California to Dallas, Texas. After being diverted to Austin, Texas due to heavy storms in Dallas, hundreds of us, including families with young children, some elderly, and some disabled persons, were forced to wait almost 9 hours on the tarmac of Austin Bergstrom International Airport, enclosed in a plane with no running water and no working bathroom facilities. Additionally, the only food on our flight (AA 1348) consisted of a few pretzel snack bags. The dead cabin air became stale and later polluted when the toilets began to overflow with human waste. There were other flights, too, on the tarmac that day, that sat for protracted times with disastrous results.

In light of this horrific experience, and most importantly, the dismissive attitude of the airlines in not seeking to remedy it in any way, we are forming a coalition of travelers whose focus it is to develop an air travelers' bill of rights. Enough is enough. This is not the first nor will it be the last time that this degrading and humiliating treatment occurs. Without some corrective action, air travelers are sure to continue to experience being treated as cattle in an increasingly uncompetitive airline industry.

We are thus hoping that the Commerce Committee will be willing to commence hearings on legislation to create a passenger bill of rights. In addition, we are hopeful that the Committee will consider formally recommending to the Department of Justice and Department of Transportation that a passenger bill of rights should be a condition of approval of airline acquisitions, for instance Delta Air Lines by US Air. Such consumer-related conditions are common in business mergers and acquisitions. For example, the Federal Government conditioned AT&T's acquisition of BellSouth with a host of consumer-related concerns.

We are attaching to this letter a proposed draft of a passenger bill of rights that includes guarantees for basic customer service standards, caps on the amount of time any delayed flight can be kept in limbo on the tarmac without allowing passengers to de-plane, and to ensure that the dehumanizing treatment—like that which we experienced in Austin where food and essential needs are withheld for hours—cannot occur. We are also urging the formal implementation of a Passenger Review Committee, not made up of non-airline executives and employees, but rather passengers and consumers—that would have the formal ability to review and investigate complaints. Our full set of recommendations is enclosed below.

Indeed, in this context, history is repeating itself. For just back in 1999, customer service had reached new lows when Northwest airlines kept thousands of passengers trapped on grounded planes in Detroit for hours. Responding to the tidal wave of consumer complaints, legislators then introduced a passenger bill of rights. The airlines sought to stave off the legislation by initiating their own set of non-binding “promises.” But as the *Los Angeles Times* recently reported, and according to a report by the Department of Transportation, each of these promises was broken as easily as it was made in successive years.

On behalf of passengers of American Airlines flights 1348, 534, 1008 and anyone who has been forced to sleep in a terminal because of airline delays, anyone who has experienced mind-numbing delays and cancellations, anyone who has experienced the blithe and dismissive rudeness that too frequently accompanies the poor service, we are hopeful that you can help us light the fire of a new and long overdue consumer movement that will give air travelers the respect and fair treatment we deserve.

Signed,

Kathleen and Timothy Hanni, 159 Silverado Springs Drive, Napa, CA 94558.

Tom and Allison Dickson, 11534 Hillpark Lane, Los Altos, CA 94024.

Alex Perez, 3975 Catamarca Dr., San Diego, CA 92124.

Chase Costello, 4757 Bayard Street Apt. 100, San Diego CA 92115.

Tim Meehling, 618 Meadow Lake Dr., Freeburg, IL 62243.

Meena Reisetter, 1215 Pacific Ave #103, San Francisco, CA 94109.

Karin Flores, 1499 Union Street #9, San Francisco, CA 94109.

Sheli Woodward, 166 Leesburg Pike, Georgetown, KY 40324.

Landen Hanni, 159 Silverado Springs Drive, Napa, CA 94558.

Melissa Wheeler, Casey Courtney, 39703 Rd. 425B, Oakhurst, CA 93644.

Mark Vail, 3366 Avalon Ave., Madera, CA 93637.

Nancy K. Vandergriff, 120 Sunnybrook Pl., San Ramon, CA 94583.

Jeff Hunt, 3549 20th St., San Francisco, CA 94110.

cc: Senator Barbara Boxer, Senator Dianne Feinstein, Senator Jay Rockefeller, Senator Ted Stevens, Senator Trent Lott, Rep. Mike Thompson, Chairman James Oberstar, Rep. John Mica, Chairman Jerry Costello, and Rep. Thomas Petri.

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#### PROPOSED BILL OF RIGHTS FOR AIRLINE PASSENGERS

All American air carriers shall abide by the following standards to ensure the safety, security and comfort of their passengers:

- Establish procedures to respond to all passenger complaints within 24 hours and with appropriate resolution within 2 weeks.
- Notify passengers within 10 minutes of a delay of known diversions, delays and cancellations via airport overhead announcement, on-aircraft announcement, and posting on airport television monitors.
- Establish procedures for returning passengers to terminal gate when delays occur so that no plane sits on the tarmac for longer than 3 hours without connecting to a gate.
- Provide for the essential needs of passengers during air- or ground-based delays of longer than 3 hours, including food, water, sanitary facilities, and access to medical attention.
- Provide for the needs of disabled, elderly and special needs passengers by establishing procedures for assisting with the moving and retrieving of baggage, and the moving of passengers from one area of airport to another at all times by airline personnel.

- Publish and update monthly on the company's public website a list of chronically delayed flights, meaning those flight delayed thirty minutes or more, at least forty percent of the time, during a single month.
- Compensate "bumped" passengers or passengers delayed due to flight cancellations or postponements of over 12 hours by refund of 150 percent of ticket price.
- The formal implementation of a Passenger Review Committee, not made up of non-airline executives and employees but rather passengers and consumers—that would have the formal ability to review and investigate complaints.
- Make lowest fare information, schedules and itineraries, cancellation policies and frequent flyer program requirements available in an easily accessed location and updated in real-time.
- Ensure that baggage is handled without delay or injury; if baggage is lost or misplaced, the airline shall notify customer of baggage status within 12 hours and provide compensation equal to current market value of baggage and its contents.
- Require that these rights apply equally to all airline code-share partners including international partners.

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JANUARY 22, 2007 PRESS RELEASE—PASSENGERS STRANDED ON AMERICAN AIRLINES FLIGHT 1348 CALL ON THE U.S. SENATE TO MAKE PASSENGERS BILL OF RIGHTS A PRIORITY

**Bill of Rights Sought as Precondition to Upcoming Airline Merger**

*Napa Valley, CA*—A group of passengers who were recently stranded on American Airlines flight #1348 for over 8 hours with no food or access to bathroom facilities today called on Members of the Senate Commerce Committee and the House Transportation & Infrastructure Committee to hold hearings on a comprehensive Passengers Bill of Rights. The Passenger Bill of Rights would modernize and improve airline industry standards for customer service. The group is also calling upon Members to urge the Department of Transportation and Department of Justice to condition the merger of US Airways and Delta Air Lines on the adoption of such a Bill of Rights.

"We feel that enough is enough. This is not the first time, nor is it likely to be the last, that this kind of degrading treatment is visited on passengers," said Kate Hanni, one of the passengers from American Airlines flight 1348. "Thousands of legitimate complaints by travelers mistreated by the airlines are regularly dismissed or inadequately addressed by the industry."

"As Congress considers airline mergers, it is the perfect time to finally give consumers and taxpayers what we deserve: a comprehensive, enforceable Passenger Bill of Rights," added Hanni.

On December 29, 2006, the passengers on American #1348 were on their way from San Francisco, California to Dallas, Texas, and were diverted to Austin, Texas due to heavy storms in Dallas. In Austin, the passengers were forced to wait in the cabin for almost 9 hours with no running water and no working bathroom facilities. There was virtually no food, and the stale air quickly became polluted because of a sanitary system that met its capacity. Passengers are yet to receive any explanation or apology from the company.

Consumer-related conditions on mergers are commonly adopted, including most recently with the AT&T/BellSouth merger. The airlines successfully fought and killed Passenger Bill of Rights legislation in 1999—a move that was initiated after airlines kept thousands of passengers trapped on grounded planes for hours.

Poor customer service by the big airlines has dramatically worsened over the years. One recent government report showed that the airline industry reported a six-year low in on-time statistics in November 2006. Other reports have shown increasing delays and declining customer service.

The passengers of American Airlines flight 1348, 534 and 1008 announced they would be forming a national grassroots coalition comprised of concerned taxpayers and consumers dedicated to passing the Bill of Rights.

DELTA BOARD COUNCIL  
*January 19, 2007*

Hon. DANIEL K. INOUE,  
Chairman,  
Senate Committee on Commerce, Science, and Transportation,  
Washington, DC.

Dear Mr. Chairman:

The Delta Board Council, peer-selected employee advocates to the company's senior management and its Board of Directors for the nearly 40,000 ground employees and flight attendants of Delta Air Lines, is writing to express on behalf of Delta employees worldwide our resolute and unified opposition to US Airways' proposed hostile takeover of Delta.

Delta employees have made significant sacrifices since our company entered bankruptcy. We have endured pay cuts, reductions in medical benefits, relocations, and furloughs. It has been a painful experience for all. Despite these hardships, we are unified in our fight against this hostile, unsolicited takeover attempt and we stand together in support of our company and its future for many reasons.

First, our leadership has demonstrated its commitment to employees by leading the effort to retain our pensions, and it is this leadership we support. Rather than discard all pension obligations, we together fought for and, with the determined efforts of Congressional leaders, achieved legislation that provided us the ability to preserve pensions for approximately 90,000 active and retired non-pilot employees. By contrast, US Airways defaulted on all of its defined benefit pension plans—though somehow it came up with the funds to try to buy our airline. This is not the type of leadership we could ever support.

Second, after having made tremendous sacrifices, Delta employees have been a key component in catalyzing our resurgence as a vibrant, customer-focused airline and we have earned the right not to have the results of our hard work and our investment in our company taken from us or placed at risk by the US Airways deal.

We are certain that US Airways' unsolicited takeover, based on shrinkage, will reverse our progress. It will dilute our brand. It will negatively impact our ability to deliver superior service. It will forever alter our culture of caring for, and dedication to, our customers and the communities we serve.

Moreover, US Airways has made it clear that its bid depends on Delta remaining in bankruptcy during a very arduous regulatory review which, in view of the complexity of our industry, could take a year or more. The longer Delta remains in bankruptcy, the more everything we have worked so hard together to accomplish is at risk—a situation we are unwilling to accept because we were forced to remain in bankruptcy by US Airways.

Third, we believe in our plan and want to emerge from bankruptcy as a strong, stand-alone company. Our leadership has worked tirelessly to craft a plan that is working for Delta employees, our customers, the communities we serve, and our other stakeholders. In short, Delta leaders and our people have engineered a resurgence that will be an example in the industry for years to come. We deserve this chance at success and all of the potential it holds for Delta people.

When we compare what Delta management has said—and proven—to us against US Airways' record, our choice is clear and compelling. Through our efforts—on our aircraft, behind our ticket counters and reservation desks, in our hangars, and everywhere else we support Delta passengers—Delta is rapidly becoming the industry standard in passenger satisfaction. By contrast, US Airways does not even appear to have the objective of achieving customer service excellence.

Fourth, we are concerned about the loss of Delta jobs and benefits as a result of this merger. In a recent open letter, US Airways talked carefully about avoiding “layoffs” of “frontline” employees. In reality, the US Airways plan would require that capacity be reduced by at least 10 percent. That in turn can only be accomplished by eliminating flights, paring our fleet, and eliminating approximately 10,000 jobs. We are convinced that their assurance about frontline employees is merely tactical. It is one which, given US Airways' contentious relationship with its own employees—thousands remain on furlough 15 months after they merged with America West—gives us no confidence in whatever public proclamations are made by US Airways.

Moreover, US Airways makes no effort to hide the fact that thousands of supervisory and administrative employees will be fired or laid off, or, in their words, they will become bit players in pursuit of “synergies.”

In contrast, in 2006 Delta offered recall to more than 340 pilots, approximately 900 maintenance professionals and approximately 1,200 flight attendants.

For these reasons, we are steadfast in our belief that a strong Delta is a Delta that emerges from bankruptcy as a stand-alone Delta. To that end, we have launched a website, *www.keepdeltamydelta.org*, which is a public affirmation of our views and highlights our efforts throughout the world to rally opposition to US Airways' hostile takeover attempt. The site shows the negative impact state-by-state that a US Airways/Delta merger likely would have on consumers and communities. Significantly, the site also has attracted more than 100,000 signatures from Delta employees, retirees, frequent flyers, and concerned customers in support of a letter opposing US Airways' hostile takeover attempt. In that letter, we sum up our position:

We've worked hard to strengthen and improve our airline. We deserve the chance to succeed and benefit from our contributions, which we have accomplished together. We do not deserve to lose our jobs and benefits or to have US Airways place at risk the results of our hard work.

Because Delta employees have so much at stake in our airline, because we believe that US Airways' proposal is bad for our employees, customers, the communities we serve and our other stakeholders, and because we have confidence in our management and in our plan, we have asked Gerald Grinstein, Delta's Chief Executive Office, to deliver this letter to you when he testifies before the Committee on January 24. We speak for our fellow employees. Jerry speaks for us.

Sincerely,

The Delta Board Council: Beth Graham, In-Flight Representative; Anne Larkin, ACS Representative; Bill Morey, Reservation Sales & City Ticket Offices; Chris Muise, Supervisory & Administrative; Jack Roth, Technical Operations.

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DELTA AIR LINES RETIREMENT COMMITTEE AND DELTA SECTION 1114  
COMMITTEE OF NONPILOT RETIREES

*January 24, 2007*

Hon. DANIEL K. INOUE,  
Chairman,  
Senate Committee on Commerce, Science, and Transportation,  
Washington, DC.

Dear Mr. Chairman:

I am writing on behalf of the nearly 10,000 non-pilot retirees and dependents of Delta Air Lines who are members of the Delta Air Lines Retirement Committee (DALRC), which I chair. I also write to you on behalf over 36,500 Delta non-pilot retirees, spouses, and survivors I represent as chair of the Section 1114 Committee appointed by the bankruptcy court in the Delta Air Lines case to represent them in protecting their retiree medical benefits in Delta's bankruptcy case.

We welcome the Committee's review of airline mergers and of the US Air takeover attempt in particular. Our message to the Committee is simple. We are absolutely opposed to a US Air-Delta merger.

Delta was an extraordinary company to work for, and even in difficult times it has been a very different company than US Air. During its bankruptcy, Delta successfully lobbied for Congressional legislation that would allow it to keep its promises to its many thousands of non-pilot active and retired employees and avoid terminating their pensions. Facing the same obstacles in their efforts to reduce cost and exit bankruptcy, US Air, in its two bankruptcies, eliminated its employees and retirees pensions, saddling the Pension Benefit Guaranty Corporation with billions of dollars of liabilities. Delta is now poised to achieve profitability, thanks to the enormous sacrifices of its employees and retirees, and is ready to emerge from bankruptcy. But instead, as part of a merger US Air wants Delta to remain in bankruptcy for many more months to wring out additional "synergies." We know what that means—more Delta employees involuntarily joining the ranks of our retirees and perhaps even more retiree give backs.

A US Air takeover will be bad for Delta employees and bad for US Air employees. "Synergies" means more jobs lost and fewer choices for travel for the customers we serve. And US Air's proposed takeover means burdening the combined airline with billions of dollars of additional debt. Airlines are subject to cyclical economic swings and outside event risks that are hard to manage. An airline burdened by additional debt might not survive the next crisis.

A US Air takeover would not just reduce competition. US Air would be an especially chancy partner for Delta. Fifteen months into its merger with America West, US Air still has not settled labor issues with its employees and has not merged its separate reservations systems. US Air's proposed takeover will require them to take

on a third reservation system, additional labor contracts, incompatible fleets and different domestic and international code-sharing arrangements.

There are many problems with US Air's hostile takeover proposal—questionable revenue assumptions, huge new debt, and it fails antitrust law scrutiny—but for us, the equation is simple. If Delta succeeds as an independent airline, Delta retirees will preserve what remains of our benefits for which we worked so hard and that are so critical for so many of us.

As you consider the state of the U.S. airline industry, and hear pronouncements from experts that there is excess capacity or that additional efficiencies are possible through consolidation, please consider two things. Those high sounding phrases mask genuine human consequences. Real people lose jobs and pensioners lose health benefits and income security we worked a lifetime to achieve.

And consider also that a US Air takeover is only possible because of the different way the two companies have chosen to deal with their employees and retirees pension obligations. Delta has worked to continue to provide the earned pension benefits it promised to its many thousands of non-pilot employees and retirees, and is selling at a discount because of those remaining obligations. US Air is essentially using the savings it got by dumping its employees and retirees pension obligations to now fund this takeover attempt.

US Air's unwanted offer to Delta is a bad deal for Delta, for both airlines' employees, for our retirees, for the security of our pension system, for customers, and for competition. It should not survive antitrust review, but if it did, it would produce an airline so burdened with debt, at the next difficulty (and in the airline industry there are many) the combined airline would plunge back into bankruptcy.

Please accept my thanks and that of all Delta retirees for considering our views. As a gesture of our true solidarity with Delta Air Lines, I have asked Mr. Gerald Grinstein to deliver this letter to you personally.

Respectfully,

CATHY CONE,  
*Chair.*

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FREDERICK C. FORD, A.A.E.  
*Cambridge, Massachusetts, January 26, 2007*

Hon. DANIEL K. INOUE,  
Chairman,  
Senate Committee on Commerce, Science, and Transportation,  
Washington, DC.

Dear Chairman Inouye:

I am writing you and your fellow Members of the Committee on Commerce, Science, and Transportation as a "friend of the Committee" and respectfully request this document be entered into the record of the aforementioned hearing on January 24, 2007.

Please allow me to present my credentials.

I am a former General Manager of Dallas/Fort Worth, Texas International Airport, Director of Aviation for the Massachusetts Port Authority and Vice President of Pan American World Airways.

My current business as a consultant causes me to travel over 150,000 air miles per year and I am a member of the US Airways and Delta Air Lines frequent flier programs and often fly over 100,000 mile per year on Delta.

Senator Boxer may be familiar with my testimony before the House Government Operations Subcommittee in the investigation of Pan Am 103 during which I became an advocate for the families of the victims and this evidences that I am not a blind supporter of the airlines or the airline industry. I am, in fact, an advocate for the consumer and passenger rights.

I respectfully submit that I am reasonably qualified to comment on the topic of airline mergers and their impact on the industry, employees and traveling public.

If I may, I would like to submit my views as to the merits and impacts of the hostile merger/acquisition of Delta Air Lines by US Airways.

As a preface to my remarks I submit that I have not been the recipient of any compensation or consideration of any kind by either Delta Air Lines or US Airways.

Allow me to comment first from the airport operator viewpoint.

As the former CEO/COO of airports large and small served by Delta, US Airways and others, I submit that Delta Air Lines, in its past and current configurations, has always been regarded as a "people" airline. Whether it is for its passengers or its employees, Delta, from its very inception in Monroe, Louisiana, has always taken pride in serving its customers with reasonably good service and lowest possible fares and has always considered its relationships with its employees as a partnership.

Delta's employees, in the mid-1980s, bought a Boeing 767 for Delta as a gesture of support, appreciation and loyalty to their company to evidence this partnership.

Delta has always been amongst the first of major airlines to outreach to cities they serve and to airports from which they operate to support local initiatives whether they be for charitable purposes or new facility construction such as Terminal A in Boston, where, in the immediate aftermath of 9/11, Delta recommitted to its financial support. Delta stood tall for Boston and New England.

Delta has a corporate philosophy of being a partner with communities they serve and they have always been there to support the airport, city and state from which they operate whether it be for an aircraft to use for a disaster drill or to providing representation from senior management to seek solutions to serious local issues such as congestion at La Guardia or the recovery of traffic from the impacts of 9/11. Delta is a solid community citizen.

From an airline employee perspective, Delta has always been a leader in fairness of policies and compensation to its employees as evidenced by it being one of very few large companies where the employees, in general, have not felt the need to have collective bargaining representation.

One just has to look at the history of mergers and acquisitions, namely the days of the Texas Air Corp acquisitions of People Xpress, Eastern, and Frontier or the ill-fated Pan Am/National Airlines merger where corporate cultures, union mistrust of management and the creation of monopoly markets caused employee unrest, loss of wages, benefits, retirement programs and employee life savings.

An industry that once was considered to be among the very best places to work has become, in many cases, one step above temporary employment. Why?

It is because of corporate greed and not caring about employees, passengers, public and private debt obligations or the economic futures and well being of families of thousands of employees! It may be called the Icahn-Lorenzo Effect!

While Delta has sought and received sacrifices from its employees, it is largely intact from whence the latest rounds of airline restructuring began. It still has many senior 30-plus-year employees and it treats its employees with respect and dignity.

Delta's leadership, from Mr. Grinstein, Mr. Whitehurst and Mr. Macenczack at corporate headquarters to 39 year employee Lois Goral at the Crown Room in Boston have been dedicated to providing service at levels where the customer is completely unaware of the financial standing of the company. At Delta, people come first!

Airline mergers and acquisitions do result in higher fares, reduced levels of service and declines in service levels. The cliché "competition is good for the consumer" didn't start with the airline business but it is well stated. The market is better served with competition . . . just ask Senator Schumer, where the State of New York and Port Authority of New York and New Jersey provided support and assistance to JetBlue to foster competition, increase employment, provide service to underserved communities and, most of all, create economic development.

Mr. Chairman, please count this very experienced traveler to be a supporter of market driven economics rather than forced and unwelcome consolidation. There are no beneficiaries other than the investment bankers and stock options for the corporate raiders.

Let Delta and other carriers explore together in a voluntary manner rather than cheating thousand of employees, numerous cities and town, and purchasers of airport facility bonds. These companies are public utilities and, therefore, the public interest must be considered from all perspectives.

There is a very simple question and answer to the suggested benefits proffered by US Airways. Is the elimination of a great company and the destruction of the futures of thousands of employees and families a justifiable price to pay so one segment of the market can fly once per year to Disney World for under \$200.00? I think not!

Thank you very much for considering these thoughts. You and the Members of the Committee have a daunting task to consider and the well-being of thousands of people relying upon your diligent and thorough review of the matter. The deliberations may be difficult but the wrong answer may create an abundance of personal bankruptcies, lost savings and a retirement of lost dreams. Please use your wisdom thoughtfully.

Sincerely,

FREDERICK C. FORD, A.A.E.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DANIEL K. INOUE TO  
HON. ANDREW B. STEINBERG

*Question 1.* The point of consolidation is to address the fundamental problem of overcapacity that has plagued the industry over the past several years. It is a matter of too many seats chasing too few consumers. Recently, however, trends have turned in the opposite directions. Airlines have constrained growth, and even cut capacity in some cases, and load factors are at all time highs. Given these trends, is consolidation really needed?

Answer. The term “consolidation” inevitably evokes the idea of mega-mergers when discussing the airline industry. As stated in my written testimony, my view is that mergers are by no means an elixir for the airline industry. Merging two air carriers is a complex, risky, and expensive endeavor. I think there are two questions that should be considered: whether consolidation is necessary and whether it is desirable. The question of whether consolidation is necessary is best answered directly by the marketplace itself. The trends cited in your question such as airlines cutting capacity and increasing load factors are best characterized as airlines’ tactical measures to regain their financial footing in the immediate term. Consolidation, on the other hand, involves long-term strategic decisions of airlines’ to merge with other firms, sell certain assets, or to even exit the marketplace. These types of decisions are not typically made in direct response to the vagaries of business cycles. Rather these decisions take into account a long-term view of the competitive landscape, macroeconomic trends, and resource constraints. The free-market, and not the government, is the best arbiter to assimilate all the data and deliver an optimal outcome.

This is not to say the government does not have an important role. Rather it is important for the government to keep an open mind and maintain a neutral stance acting only when there is clear evidence that the public interest would be harmed by a transaction or other event. Both DOT and the Department of Justice are poised to evaluate, and if necessary, remedy anticompetitive effects such as higher fares or reduced service options that may occur as a result of consolidation. However as I state above, I believe it is important that the government take a neutral stance and keep an open mind as mergers may very well succeed in some instances.

As to whether consolidation is desirable, it depends on the ultimate objective. Consolidation could possibly reduce the volatility associated with extreme boom-and-bust cycles that have historically affected the industry. U.S. airlines have done a remarkable job at increasing efficiency and cutting costs in the past 5 years. However, I do not believe the long-term volatility that plagues the airline industry is truly gone despite recent reductions in capacity. Rather I think it is has been simply obscured by relatively good macroeconomic conditions and, if history is any guide, will return during the next economic slowdown.

*Question 2.* Is it possible, particularly if one merger leads to a flurry of activity, that the efficiency benefits of consolidation will be outweighed by higher fares and fewer service options?

Answer. To paraphrase your second question, you ask whether it is possible that a wave of mergers resulting from a domino effect precipitated by a single merger could result in higher fares and fewer service options that offset any efficiency gains? It is far from certain that a single merger would beget a series of mergers. In any case, entry into the airline industry remains essentially unfettered. The difficulties of the past 5 years have not deterred entrepreneurs from starting new low-cost carriers (LCC) nor has it deterred existing low-cost airlines from expanding. The LCCs and their ability to enter markets serve as formidable check on the pricing power of large airlines in most of the Nation. Mergers are often sought in order to attain new efficiencies. Thus I think it is entirely plausible that certain mergers could result in intensified competition within the industry.

*Question 3.* What are the potential benefits of consolidation given the current state of the airline industry?

Answer. In response to your question about the potential upside of consolidation, I think there is the potential for consolidation to create benefits for the public. One potential benefit would be intensified competition amongst airlines as airlines with newly attained efficiencies aggressively leverage those gains in the marketplace. Another potential benefit is that consolidation could spur new forms of competition. In the United States, air travel has become increasingly commoditized and with terms of competition primarily limited to price and schedules. Consolidation could lead to the emergence of new business models that compete on the basis of different product attributes such as on-board service. Another possible benefit of consolidation would be a more stable airline industry consisting of companies with the financial wherewithal to weather business cycles. In addition to layoffs and painful wage cuts, the

most recent downturn precipitated a series of pension defaults that not only deprived airlines employees and retirees of their benefits but also exposed the taxpayer to a potential liability. These are not harbingers of a healthy industry. Thus I believe to the extent consolidation may foster financial stability within the industry, it could be considered a benefit.

*Question 4.* Some industry experts suggest that consolidating down to three large airlines is needed to best ensure the financial stability of the airline industry. What is your view of this? Would this appropriately balance the need for ensuring the financial stability of the industry with consumer interests?

Answer. I do not believe there is a “magic” number of large airlines that would ensure the financial stability of the airline industry. As you note many commentators suggest that three airlines would be optimal, but I think the more important underlying idea in their observations is that market forces are trying to rationalize the industry and could result in fewer (but larger) network carriers.

*Question 5.* Mergers have a history of problems in the airlines industry. To what extent is it likely a merger could actually realize the efficiencies given the difficulties of integrating labor forces and other complex issues?

Answer. It is extremely difficult to say in general whether a merger could actually realize the efficiencies that may exist. Even with a specific hypothetical, it would be a challenging intellectual exercise to make such a prediction with a high degree of confidence. Historically, some airlines mergers have successfully generated efficiencies while others have not succeeded for the reasons you have cited. As I mentioned earlier, I think the best stance for the government would be to let the market determine the merits of a particular transaction and intervene only when there is a clear risk to the public interest.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN F. KERRY TO  
HON. ANDREW B. STEINBERG

*Question 1.* Can you describe in detail the Department of Transportation’s role in the review process and how it would determine whether the merger strengthens or reduces competition?

*Question 2.* Is there are threshold that you use in individual markets where you don’t allow an air carrier to have more than a certain percentage of the market? What’s the cutoff?

Answer to Questions 1 and 2. Airline mergers are reviewed by both the Antitrust Division of the Department of Justice (Antitrust Division) and the Department of Transportation (DOT). The Antitrust Division is responsible for determining whether the transaction will be challenged under the antitrust laws. DOT conducts its own competitive analysis of proposed mergers and by practice submits its views and findings to the Antitrust Division privately. DOT’s analysis is based on traditional antitrust precepts that define markets typically as city pairs such as Boston-Charlotte or Baton Rouge-Los Angeles. DOT measures the concentration using metrics such as the Herfindahl-Hirshman Index (HHI) and assesses the overall competitive effect that the proposed merger would likely have in affected markets. We also look at other factors such as airport capacity constraints that tend to increase the risk of competitive harm. The more likely a merger is to increase concentration, the more likely it is to be deemed anticompetitive and thus subject to challenge or remedial measure. There is not, however, any threshold percentage for market share that will automatically indicate whether a merger may lead to anticompetitive effects.

Finally, DOT’s competitive analyses may also encompass issues such as effects on network competition, effects on service to small communities, and whether a transaction may constitute an unfair method of competition or a deceptive trade practice.

*Question 3.* In your written testimony, you make clear that the government should not “purposefully or inadvertently prevent the industry from undertaking the restructuring demanded by the market forces,” and that this philosophy applies to consolidation. Do you feel consolidation is necessary or inevitable, and do you think it will benefit the airline industry?

*Question 3a.* If so, how will the Department of Transportation review this merger objectively if its philosophy is that the government should let market forces work themselves out?

*Question 3b.* If this merger is approved, what happens in small markets that may only have 3 or 4 carriers that both US Airways and Delta serve that would see 4 carriers reduced to 3 or 3 carriers reduced to 2? What action would the Department take to ensure competition in those markets?

*Question 3c.* What action would the Department take in Boston or any market that both airlines serve if another airline isn't interested in that market in the wake of any divestitures that the new airline would have to make?

Answer. The question of whether consolidation is necessary is best answered directly by the marketplace itself. Trends such as airlines cutting capacity and increasing load factors are best characterized as airlines' tactical measures to regain their financial footing in the immediate term. Consolidation, on the other hand, involves long-term strategic decisions of airlines' to merge with other firms, sell certain assets, or to even exit the marketplace. These types of decisions are not typically made in direct response to the vagaries of business cycles. Rather these decisions take into account a long-term view of the competitive landscape, macroeconomic trends, and resource constraints. The free-market, and not the government, is the best arbiter to assimilate all the data and deliver an optimal outcome.

Consolidation may benefit the airline industry although that is not a certainty. It could result in a more stable airline industry consisting of companies with the financial wherewithal to weather business cycles. In the relatively fragmented industry we have today, each economic downturn brings with it painful and sometimes dramatic rounds of layoffs, pay cuts, and bankruptcy filings. The most recent downturn precipitated a series of pension defaults which not only deprived airlines employees and retirees of their benefits but also exposed the taxpayer to a potential liability. These are not harbingers of a healthy industry. Thus I believe to the extent consolidation may foster financial stability within the industry, it would be a benefit.

DOT does not prejudge the competitive effects of any proposed merger. Instead, we review each transaction on a case-by-case basis. We have ample authority and opportunity to consider whether a proposed merger would substantially reduce competition and to coordinate with the Department of Justice any proposed remedies. The issue of remedies to the proposed US Airways/ Delta merger with regard to Boston or other markets, is moot. US Airways has withdrawn its takeover bid.

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. BILL NELSON TO  
HON. ANDREW B. STEINBERG

*Question.* The skies have been pretty bumpy for airlines in recent years. The Air Transportation Stabilization Board (ATSB) guaranteed billions in loans and pensions have been dumped on the PBGC. This essentially means the merger is being funded by the taxpayers. And with a "new Delta" looking to end up with \$23 billion in debt—up from the \$10 billion Delta would hold coming out of bankruptcy. What kind of stability concerns does that raise? Are there any indications that taxpayers would end up bailing out a "new Delta" on a grander scale than we've already had to do?

Answer. As you are aware, US Airways' takeover bid for Delta has been withdrawn. Many critics of the takeover bid raised concern over the amount of debt involved in the transaction—specifically, concern that the "new" Delta would have been excessively leveraged upon its exit from bankruptcy, thereby weakening its overall prospects for success. Going forward, DOT will continue its practice of carefully monitoring the financial condition of airlines in order to assess the impact of any particular carrier's distress on the overall health of the air transportation system.

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. FRANK R. LAUTENBERG TO  
HON. ANDREW B. STEINBERG

*Question.* Labor costs are one of the highest costs for air carriers. Is it an unfair competitive advantage for airlines to be required to fully fund their employee pension plans while others are relieved of pension obligations through bankruptcy or other procedures?

Answer. It is true that labor costs constitute a major portion of U.S. airlines' total costs. It is also true that a major source of financial distress for certain legacy carriers is the size of the accumulated pension liability. Most of the major carriers have under-funded their employee's pensions by billions of dollars. Several carriers have declared bankruptcy and used the bankruptcy process to terminate their pension plans and offload the costs to the Federal Pension Benefit Guaranty Corporation (PBGC). As a result of accumulated losses and pension fund shortfalls, the airlines account for almost 40 percent of PBGC claims. And while accounting for almost 40 percent of claims from failed plans, the airlines have paid approximately 3 percent of the total premiums in the history of the guarantee fund, according to the PBGC.

Respected airline industry analysts have frequently observed the airline industry is, paradoxically, relatively easy to enter and hard to leave—sometimes characterizing this phenomenon as an “exit barrier” for failed firms that is the inadvertent consequence of the Chapter 11 reorganization process. They point out that airline stakeholders (lenders, suppliers and employees)—any one of whom could singly cause an air carrier’s demise—rarely force such an outcome and instead trade in old contractual arrangements and debt for new ones. And the net result of those decisions is, perversely enough, that airline employees make big sacrifices, and that those carriers who manage to avoid bankruptcy eventually find themselves at a serious competitive disadvantage. Given that one of DOT’s statutory mandates is to “encourage efficient and well-managed air carriers to earn adequate profits and attract capital”, this situation is problematic.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO  
HON. ANDREW B. STEINBERG

*Question 1.* If the US Airways/Delta merger were approved by the Department of Justice, many believe it would send a signal to the other four legacy carriers that consolidation is acceptable. Do you think that the other legacy carriers would want to merge in order to remain competitive?

Answer. The proposed takeover bid by US Airways for Delta has been withdrawn by the management of US Airways. However, industry analysts and policymakers debate whether the US Airways/Delta transaction would have triggered a wave of mergers. It is not clear.

The possibility of a domino effect resulting in a wave of mergers would be dependent on the nature of the initial transaction. A carrier would likely evaluate the impact of a merger between two (or more) of its competitors on its own competitive position and then determine whether a strategic response is necessary or prudent. In some cases, a merger or acquisition could be the optimal response. In making this decision, carriers are likely to evaluate not only the scale and scope of the initial transaction, but also other factors such as execution risk, potential antitrust remedies, and an evaluation of alternatives to a follow-on merger transaction, such as organic growth, market innovation, or marketing alliances.

*Question 2.* What would be the effect on the flying public if the U.S. had only three major airlines instead of six?

Answer. Because we review mergers on a case-by-case basis, DOT has not had occasion to consider whether consolidation resulting in three versus six network carriers would be in the public interest. Nor do we normally opine on the myriad hypothetical situations often discussed in the media. But I believe it is far from certain that a single merger would beget a series of mergers. In any case, entry into the airline industry remains essentially unfettered. The difficulties of the past 5 years have not deterred entrepreneurs from starting new low-cost carriers (LCC) nor has it deterred existing low-cost airlines from expanding. Additionally, the low-cost carriers and their ability to enter markets serve as a formidable check on the pricing power of large airlines in much of the Nation.

*Question 3.* What impact would such a merger have on low-cost carriers like Southwest?

Answer. The airline industry is highly competitive. History has shown that when carriers merge or exit a market, other domestic carriers may enter and fill the service void. Low-cost carriers such as Southwest are the fastest growing carriers, often exceeding 10 percent growth in capacity per year. It is likely that low-cost carriers will continue to expand capacity and serve new markets, regardless of merger activity among the legacy carriers.

*Question 4.* If this merger ultimately does not go through, what do you see is the future of the six “legacy carriers?”

Answer. US Airways’ withdrawal of its takeover bid for Delta has not lessened DOT’s monitoring of the financial performance of U.S. airlines. As I stated in my written testimony, short-term prospects for the airline industry appear quite favorable based on the following factors:

- Positive revenue trends due to slower domestic capacity growth and very strong demand.
- Higher average yields in part due to less capacity pressure from low-cost carriers.
- Strong economic growth in the United States.
- Continued cost discipline.

- Improved balance sheets with encouraging levels of current free cash-flow.

Over the long term, however, the outlook for the U.S. airline industry is more uncertain. The industry faces persistent structural problems that must be addressed if we are to avoid facing another wave of bankruptcies in the next economic downturn, and if the industry is to take full advantage of the very substantial progress made in lowering unit costs.

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. DAVID VITTER TO  
HON. ANDREW B. STEINBERG

*Question.* As the airline industry continues to consolidate it is inevitable that anti-trust concerns arise. In the case where the proposed mergers would result in the creation of a “mega-carrier” with a significant percentage of the domestic market under their control, how can we ensure that the consolidation of this carrier’s overlapping route structure will not result in a lack of competition that will negatively affect the American traveler, especially in relation to low volume flight routes where low-cost carriers are not likely to enter into competition with the larger airlines?

*Answer.* Today, the airline industry is extremely competitive, with six network (hub-and-spoke) airlines and several low-cost airlines that effectively set prices for the entire industry. The industry is somewhat less concentrated today than it was 30 years ago prior to deregulation. Entry into the industry remains easy and, conversely, several factors (described at greater length in my written testimony) have combined to create “exit barriers.”

While the Department of Justice’s Antitrust Division (DOJ) has primary jurisdiction to review proposed mergers and prevent those that substantially lessen competition, the Department of Transportation (DOT) also reviews mergers to make sure consumers are more broadly protected. Under our governing statute DOT pursues several statutory goals: promoting competition, encouraging efficient and well-managed air carriers to earn adequate profits, strengthening the competitive position of U.S. airlines in relation to foreign air carriers, and protecting the interests of small communities in maintaining access to the air transportation system. (See 49 U.S.C. Section 40101.) DOT, in consultation with DOJ, carefully reviews each major airline transaction on a case-by-case basis evaluating changes in concentration that it creates across all routes.

I recognize the mandate that Congress has given DOT to ensure that small communities receive adequate and affordable air service. We consider this issue to be a relevant and crucial part of any merger investigation we do. It is important to note, however, that service to small communities often depends on the overall financial success of the hub-and-spoke networks of larger carriers. This is because it is the thinner routes (*i.e.*, with fewer passengers) that tend to be the least profitable and thus the first to be eliminated in bad financial times. In fact, over the last several years, as our network carriers lost record sums, they reduced capacity and the size of their networks, directly resulting in cutbacks in service on low volume routes. (During the same period, obligations of the Essential Air Service program grew commensurately). Thus, it is not apparent that preventing consolidation would improve small community air service.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DAVID VITTER TO  
GERALD GRINSTEIN

*Question 1.* It is a significant concern of mine that any consolidation in the airline industry does not adversely affect the airline customer in our smaller communities. With a number of smaller communities’ airports already suffering from high ticket costs and a lack of flight options, how will the continued consolidation of the industry affect these communities in the future? And in particular how will the proposed merger between US Airways and Delta affect the small communities in Louisiana?

*Answer.* Impact on small communities would really depend on the type of consolidation. For example, end-to-end mergers among U.S. airlines could improve service options and fares for small communities. However, mergers between carriers with dramatically overlapping networks—like the proposed US Airways-Delta merger—would have a very negative impact on those communities, mainly because the so-called benefits from such a merger would come from reduction of capacity, which would reduce service options and raise fares. And, the sorts of communities that would be negatively impacted are not the sort, as Mr. Parker admitted earlier in this hearing, that low-cost carriers would flock to serve. So, the small communities wouldn’t likely see replacement service or low fares any time soon.

*Question 2.* Delta Air Lines employs over 400 people in Louisiana and has had a long and distinguished history in my home state from its inception in Monroe, Louisiana in 1928. I am concerned that the further consolidation of the industry will lead to many of these people losing their livelihoods. How is the industry going to consolidate and reduce fleet capability to remain profitable while not dismissing a good number of their employees?

*Answer.* The impact on employees of industry consolidation would really hinge on the sort of merger sought. An end-to-end merger where two carriers that don't have overlapping networks get together, resulting in new service options for passengers, would be challenging from an employee standpoint, since you would likely have to merge different cultures—but it wouldn't necessarily result in job losses. However, consolidation between overlapping carriers like a US Airways-Delta merger would definitely result in job losses. Many of the so-called "benefits" to be gained from the proposed US Airways-Delta merger will come from the immediate elimination of 10 percent capacity. In our estimate, that equates to about 200 aircraft—larger than AirTran's entire fleet—that are supported currently by about 10,000 employees. A company could not operate profitably with 10,000 extra employees sitting around—the financiers would never allow it—and attrition won't occur quickly enough to eliminate those positions. So, you'd see significant job losses, coming in particular from communities where the carriers overlap.

*Question 3.* As the airline industry continues to consolidate it is inevitable that anti-trust concerns arise. In the case where the proposed mergers would result in the creation of a "mega-carrier" with a significant percentage of the domestic market under their control, how can we ensure that the consolidation of this carrier's overlapping route structure will not result in a lack of competition that will negatively affect the American traveler, especially in relation to low volume flight routes where low-cost carriers are not likely to enter into competition with the larger airlines?

*Answer.* Again, it depends on the sort of merger—an end-to-end merger might enhance competition by providing new access for passengers to a global network. However, there's really no way to police the impact of a "mega-carrier" that dominates specific regions of the country, once that sort of merger is executed, and I would say that in the case of a US Airways-Delta merger, if the DOJ approved it—and it wouldn't likely do so—you absolutely could not make such a guarantee. Millions of Americans would be negatively impacted with higher fares and fewer service options, and many of those impacted would be in cities where low-cost carriers would not serve. Fortunately, the Department of Justice's role in reviewing a proposed merger is to assess the competitive impact, and DOJ follows very specific guidelines based on U.S. antitrust law in conducting those reviews. DOJ will either determine that the proposal will not negatively impact competition, it will suggest remedies that would mitigate the impact on competition but allow the proposal to proceed, or it will challenge it on the grounds that it will so negatively impact competition that it should not be approved. These reviews take a significant amount of time when there are competitive issues involved, and again, in our view, it would not approve the proposed US Airways/Delta merger.

*Question 4.* I understand that currently Delta Air Lines would be \$8 billion in debt after emerging from bankruptcy if this merger is unsuccessful. US Airways claims that in order to maximize the synergies of the two companies it is necessary to merge with Delta prior to their emerging from bankruptcy. Is it correct that under the proposed merger plan the combined debt of Delta and US Airways would reach \$25 billion?

And, how is the creation of a larger airline with a larger debt load going to undergo the trials associated with a merging successfully, provide a quality product to their customers, and become profitable at the same time?

*Answer.* In answer to your first question, yes—with US Airways increased bid, the total long-term debt load carried by the combined carrier would be approximately \$25 billion, which in this industry, is an absolute recipe for disaster. A merged Delta and US Airways would have massive labor integration and fleet integration challenges, not to mention customer service issues associated with having to merge operations, IT systems, frequent flier programs, and other facets of the business. Carrying that kind of debt load would cripple the new entity, making it nearly impossible to invest in any substantial way in the product, fleet or facilities because of the need to service the interest on that debt. Any sort of hiccup—whether an economic downturn, security scare, labor action—would bring the new entity to its knees.

*Question 5.* Mr. Grinstein, I understand that you were on the first of many flights that Delta sent into the disaster zone following Hurricane Katrina to bring relief supplies and to help relocate stranded passengers and community members. I know

that Delta was born in Monroe and I want to thank you and your company for your efforts on behalf of the State of Louisiana. We appreciate the loyalty and sense of social responsibility that Delta displayed following such a monumental disaster.

Mr. Grinstein and Mr. Parker, I would like to know if the humanitarian efforts of an airline would be hampered through consolidation or if we can count on a merged US Airways and Delta to be capable of providing aid in the event of future disasters.

Answer. Senator, thank you. Delta has a long and proud history with the State of Louisiana, and we were honored to be able to provide relief flights to bring supplies to the region and ferry survivors out in the wake of Katrina. It would certainly be my hope that humanitarian efforts would not be hindered by industry consolidation. But, if a merger of the sort proposed by US Airways with Delta occurred—a merger which would significantly weaken the carrier with an astronomical debt load, major labor integration challenges, increased costs associated with a more complicated fleet, and decimated morale—it might be difficult to provide such relief in the future.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN F. KERRY TO  
GERALD GRINSTEIN

*Question 1.* Robert Crandall, the former American Airlines CEO, wrote an op-ed in the *Wall Street Journal* in December that lauded consolidation and said specifically of US Airways' bid that "any potential anti-competitive effects . . . would be quickly tempered by the response of these low-cost carriers." Delta has asserted that low-cost carriers would not come into markets where both US Airways and Delta have a large presence. Can you respond to Mr. Crandall's assertion and explain your own view? Which specific markets would not be served by a low-cost carrier if US Airways is forced to divest routes?

Answer. Low-cost carriers are not likely to save the day in the numerous small cities that are currently served by both Delta and US Airways but will be dominated by the new combined carrier, resulting in fare increases and reduced service options after the merger. Air service to many of these small cities works economically only because of the availability of small aircraft—50 and 70 seat regional jets—to serve them. Low-cost carriers simply don't have the equipment or the business model to be able to serve these cities effectively. They fly bigger aircraft—like Boeing 737s or Airbus 320s—and serve markets with much larger Origin and Destination traffic than many of the cities that would be impacted negatively from this merger. Only 14 of the 127 small communities that will be impacted by this merger currently have low-cost carrier service. Further, the recent history of low-cost carrier expansion shows that impacted small communities are unlikely to see relief—since 2000, 93 percent of low-cost carrier growth has been in large and medium sized cities. Only 117 of 1,633 new average daily departures since 2000 have been in small or non-hub airports. Cities impacted specifically by a Delta-US Airways merger would likely include: Florence, SC; Huntington, WV; Charlottesville, VA; Scranton, PA; Montgomery, AL; Bristol, TN; and many others.

*Question 1a.* Beyond the US Airways offer, do you think consolidation is good for the industry or inevitable?

Answer. Consolidation may be beneficial at some point, but how it happens and among which industry players are the critical questions. The airline industry has undergone radical transformation since 9/11. By almost any measure, it is clear that the industry's health is improving—traffic has grown while capacity has flattened, we are seeing record load factors, the gap between breakeven and actual load factors has almost been eliminated, yields are improving, and costs are declining. Our workforces have shrunk 28 percent since 9/11 (154K jobs) but our people are more productive than ever. We've seen pricing power return and a number of carriers operate in the black in 2006. Whether consolidation is necessary to make the industry stable in the long term is arguable at this point. Critical factors in healing the industry include maintaining capacity discipline, network carriers having worldwide reach (to be insulated from regional shocks), and low-cost carriers keeping their costs under control. One thing I can state definitively is that bad consolidation—such as a merger between major competitors with overlapping networks—like US-DL—would harm the industry immeasurably.

*Question 1b.* Would you be more receptive to this offer if US Airways and Delta didn't have similar route structures?

As I said earlier, we are not now considering or negotiating any merger. A good merger would be one where the carriers have similar cultures and networks that complement each other, rather than overlapping each other. A good merger would

be one where each partner brings unique strengths to the table and adds value by increasing the other's reach globally. Even at that, I firmly believe that airline mergers are very difficult to execute, and even the good ones carry significant challenges with them. The U.S. industry is just now entering a period of renewed health and pricing power—engaging in any merger before U.S. carriers are consistently healthy would be unwise.

*Question 2.* Delta's Board of Directors rejected US Airways' offer in December. However, Delta's creditors and a bankruptcy court may decide that US Airways' offer is better than your own reorganization plan and approve it. The Departments of Justice and Transportation may then decide that it doesn't reduce competition and allow it to proceed as long as US Airways divests certain routes. Why shouldn't this merger go through if those parties conclude that competition won't be reduced?

Answer. Even with significant divestiture—which would significantly diminish the value of this proposed merger—the Department of Justice will still be highly likely to conclude that this merger is anticompetitive and it would not approve it. By every measure, the overlap between Delta and US Airways' networks is more significant and this proposed merger is more anticompetitive than the proposed US Airways/United Airlines merger, which DOJ deemed anticompetitive and decided to challenge after 18 months of review. Regardless, the U.S. industry is just now entering a period of renewed health and pricing power—engaging in any merger before U.S. carriers are consistently healthy would be unwise.

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. BILL NELSON TO  
GERALD GRINSTEIN

*Question.* Delta has a reservations center in Tampa, along with flight attendant and maintenance bases at Tampa, Fort Lauderdale and Orlando. What is your view of the impact of a merger with US Airways on the employees that work at these locations?

Answer. Delta employs almost 5,000 people in the State of Florida. US Airways' business plan calls for elimination of 10 percent of Delta and US Airways' combined capacity, which will mean the immediate elimination of nearly 200 aircraft and 10,000 jobs. Mr. Parker has stated repeatedly that the merger needs to be executed before Delta exits bankruptcy. This is because it is so much easier to reject leases and contracts while in bankruptcy, and because many of the "synergies" US Airways plans to achieve will come about through those rejections. With that in mind, it is very conceivable that the reservations center, and flight attendant and mechanics bases, could be downsized dramatically if not eliminated in their entirety.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO  
GERALD GRINSTEIN

*Question 1.* Labor costs are one of the highest costs for air carriers. Is it an unfair competitive advantage for airlines to be required to fully fund their employee pension plans while others are relieved of pension obligations through bankruptcy or other procedures?

Answer. Bankruptcy laws were enacted by Congress to permit companies to restructure their outstanding financial obligations—which can include pension, employee and vendor contracts, facilities and equipment leases and others—according to legal standards that are applied by bankruptcy courts. Where a choice must be made between requiring an airline to meet all of its outstanding financial obligations and liquidating that airline, a bankruptcy court decides whether meeting its obligation will permit or prohibit it from restructuring successfully and emerging from bankruptcy. In many cases in the last couple of decades, including those of Continental, US Airways, United, and even Delta's pilot plan, the bankruptcy courts have ruled that pension plans must be terminated or the airlines would liquidate, taking with them the jobs, service, and other economic benefit they drive. It is not for me to decide whether all of those courts' decisions were fair. What I will say is that a company should do everything it can to meet its pension obligations. In Delta's case, we froze our pilot and non-pilot plans so that they would not generate additional liability after they were frozen. Because of the pilot plan's lump sum feature however, the bankruptcy court determined that Delta could not survive without terminating that plan. We implemented a defined-contribution plan for our pilots that features a significant Delta contribution, and will provide a replacement retirement plan for our non-pilot employees. We also led a two and a half year battle to include alternative funding schedules for airlines in pension reform legislation that

has enabled us to save the previously earned benefits of our 91,000 of active and retired non-pilot employees.

*Question 2.* Since December 31, 2004, what is the total amount of bonuses paid to your management team?

Answer. None.

*Question 3.* Do you have any plans for restoring terminated employee pension programs at a future date, after the company emerges from bankruptcy?

Answer. Delta sponsored two primary defined benefit pension plans for our employees—one for pilots and one for non-pilots. Delta was able, through enactment of the Pension Reform Act signed into law last year, to save the previously-earned pension benefits of our 91,000 active and retired non-pilot employees, so no plan restoration is necessary. Delta's pilot plan was partially frozen in 2004, a new defined contribution plan was introduced at that time, and that defined contribution plan continues to provide active Delta pilots with a competitive pension plan. Because the Pension Reform Act provided no relief from the unaffordable costs resulting from the pilot defined benefit plan's lump sum feature—expected to exceed more than \$1 billion in the near term alone—the bankruptcy court and the PBGC approved termination of that plan in late 2006, in essence concluding that its termination was necessary for Delta to survive. Delta agreed to pay the PBGC very substantial additional value to assist the PBGC in meeting the unfunded liability of the pilot plan, and as such, does not plan to restore that plan. PBGC has also waived its right to call for restoration of the Delta pilot pension plan. The company has estimated that even with the termination of the pilot plan, current Delta pilot retirees will receive on average approximately \$75,200 in annualized pension benefits, including the value of lump sum benefits received.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO  
GERALD GRINSTEIN

*Question 1.* Six years ago, this Committee held hearings on the then-wave of airline consolidation and the proposed United-US Airways merger, which was ultimately challenged by the Department of Justice and several state attorneys general. Some argue that the landscape has changed since that time, in particular the emergence and predominance of low-cost carriers today. I would like to hear your perspective on how things have changed and whether those changes mean much for a proposed merger of two airlines like Delta and US Airways with significantly overlapping route networks.

Answer. What is key here is that whatever has happened to the airline industry, the law hasn't changed. DOJ still applies antitrust law as it has done since it opposed the 2000 UA/US Air merger. It cannot ignore its own merger guidelines, which look at impact on city-pair competition, impact on business travel, and regional concentration. The industry has changed, of course. Low-cost carriers are a much larger part of the airline industry today than they have been in the past. They are profitable, although that is changing; they are very competitive, and they have increased their market share by 67 percent. However, they have not expanded into small and non-hub communities—those which would be most significantly and negatively impacted by a US/DL merger—nor will they expand into those markets because of their fleet types and their business models. LCCs generally serve markets with at least 500K originating passengers per year. Over 100 of the cities that will see reduced competition and higher fares from a US-DL merger do not have now, and are not likely to get an LCC. Furthermore, as an *Aviation Daily* article from last week examined, the lines are blurring between network airlines and LCCs. LCC costs are rising and profits shrinking, while network carriers have changed dramatically since 9/11 to survive head-to-head competition with LCC's. I would not, if I were a passenger in Pasco, WA or Salina, KS, want to rely on their expansion into my community for relief from a new monopoly.

*Question 2.* Should this offer be accepted and approved by the Department of Justice, who are the “winners” and “losers?”

Answer. The biggest losers would be, by far, the passengers Delta and US Airways currently serve in small communities, as they would see increased fares and reduced service options, and have little hope of being rescued by a low-cost carrier. Our employee workforce would be dramatically harmed as they would face the loss of at least 10,000 jobs and the reversal of all their hard work and sacrifice over the last few years—the new carrier would struggle to integrate union and non-union workforces and cultures, it would see a staggering debt load, an incredibly complex fleet, and diminished salaries and revenues. Winners—short-term speculators on

Wall Street that neither have an interest in the long-term health nor viability of Delta—just the growth of their own investments.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. DAVID VITTER TO  
W. DOUGLAS PARKER

*Question 1.* It is a significant concern of mine that any consolidation in the air line industry does not adversely affect the air line customer in our smaller communities. With a number of smaller communities' airports already suffering from high ticket costs and a lack of flight options, how will the continued consolidation of the industry affect these communities in the future? And in particular how will the proposed merger between US Airways and Delta affect the small communities in Louisiana?

Answer. On January 31, US Airways withdrew its offer to merge with Delta Air Lines. US Airways was informed that Delta's Official Unsecured Creditors' Committee would not meet our demands by the February 1, 2007 deadline we had previously established. US Airways' offer of \$5.0 billion in cash and 89.5 million shares of US Airways stock would have expired on February 1st, unless there was affirmative support from the Official Unsecured Creditors' Committee for commencement of due diligence, making the required Department of Justice filings under Hart-Scott-Rodino, as well as the postponement of Delta's hearing on its Disclosure Statement scheduled for February 7, 2007.

I pledged repeatedly on behalf of US Airways that, had the proposed merger gone forward, all existing U.S. destinations served today by US Airways and Delta would have remained part of the new, improved network. The "New" Delta would have provided communities served by both carriers with access to a wider range of network options. Furthermore, consumers would have benefited from our low fare business philosophy. As your question expressly indicates, service to smaller communities in Louisiana today is limited and costly. We had hoped to help address those very concerns with the merged company we sought to create.

*Question 2.* Delta Air Lines employs over 400 people in Louisiana and has had a long and distinguished history in my home state from its inception in Monroe, Louisiana in 1928. I am concerned that the further consolidation of the industry will lead to many of these people losing their livelihoods. How is the industry going to consolidate and reduce fleet capability to remain profitable while not dismissing a good number of their employees?

Answer. Again, the US Airways proposal to merge with Delta was withdrawn on January 31. I pledged repeatedly on behalf of US Airways that no frontline employees of either airline would have lost their jobs involuntarily as a result of the merger. Further, all employees within individual work groups would have been moved to the higher existing labor cost of either airline. Those commitments would have been kept had the merger gone forward.

*Question 3.* As the air line industry continues to consolidate it is inevitable that anti-trust concerns arise. In the case where the proposed mergers would result in the creation of a "mega-carrier" with a significant percentage of the domestic market under their control, how can we ensure that the consolidation of this carrier's overlapping route structure will not result in a lack of competition that will negatively affect the American traveler, especially in relation to low volume flight routes where low-cost carriers are not likely to enter into competition with the larger airlines?

Answer. Had our proposal to merge with Delta Air Lines gone forward, the Department of Justice would have conducted a full and thorough evaluation of the transaction to ensure that the benefits to consumers would have outweighed any potential negative impact. Ample and adequate authority is vested in DOJ under the time-tested laws in place for evaluating business transactions such as our proposal. We are confident that DOJ would have exercised its lawful authority in the best interests of the American traveler. We, of course, were confident that our proposal would have passed muster with the Department of Justice and that consumers would have, in fact, benefited from a merger between US Airways and Delta.

*Question 4.* I understand that currently Delta Air Lines would be \$8 billion in debt after emerging from bankruptcy if this merger is unsuccessful. US Airways claims that in order to maximize the synergies of the two companies it is necessary to merge with Delta prior to their emerging from bankruptcy. Is it correct that under the proposed merger plan the combined debt of Delta and US Airways would reach \$25 billion?

And, how is the creation of a larger airline with a larger debt load going to undergo the trials associated with a merging successfully, provide a quality product to their customers, and become profitable at the same time?

Answer. A merger between US Airways and Delta would have created a significantly larger airline with much greater capacity to generate revenue. An absolute level of debt is not a particularly meaningful number in and of itself. For example, General Electric has \$400 billion of debt. Yet General Electric is an enormous company that has enormous profits. What matters is whether a company can service the debt. It is revealing to note that those willing to provide the financing necessary to pursue our proposed merger with Delta were clearly unconcerned about the absolute level of debt.

*Question 5.* Mr. Grinstein, I understand that you were on the first of many flights that Delta sent into the disaster zone following Hurricane Katrina to bring relief supplies and to help relocate stranded passengers and community members. I know that Delta was born in Monroe and I want to thank you and your company for your efforts on behalf of the State of Louisiana. We appreciate the loyalty and sense of social responsibility that Delta displayed following such a monumental disaster.

Mr. Grinstein and Mr. Parker, I would like to know if the humanitarian efforts of an airline would be hampered through consolidation or if we can count on a merged US Airways and Delta to be capable of providing aid in the event of future disasters.

Answer. I trust you are aware that Delta was not alone in providing aid to your constituents in the wake of Hurricane Katrina. The relief effort mounted cooperatively by the Nation's airlines occurred just prior to the consummation of the merger between America West Airlines and the old US Airways. Both companies—US Airways and America West—participated significantly in that effort, as did virtually every other major airline. As the communities we serve will no doubt attest, the new US Airways is a solid corporate citizen, contributing many thousands of dollars in cash, goods, and services to many, many causes worthy of support. Likewise, our employees donate countless hours of their own time in the service of community causes. You need not be concerned that a merged US Airways and Delta would have been any less willing or able to engage in the kind of humanitarian efforts brought to bear by the Nation's airlines to assist the victims of Hurricane Katrina.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN F. KERRY TO  
W. DOUGLAS PARKER

*Question 1.* You have been a strong advocate for consolidation in the airline industry. Yet, according to the GAO, the new US Airways-America West has only cut its fleet by 10 percent. It also continues to operate as two separate airlines for all intents and purposes. At the same time, you have promised not to eliminate jobs or cut service if the government approves your bid to acquire Delta. If, as you argue, the industry needs to consolidate, shouldn't there be a real downsizing that results in fewer costs?

*Question 1a.* What benefit does your merging with Delta have for the industry beyond acquiring a competitor if you don't plan on significantly reducing overhead costs or selling a significant amount of infrastructure?

*Question 1b.* For instance, you have promised \$1.65 billion in savings, but the combined debt of the new airline would be \$24 billion, more than the combined debt of both airlines currently. That certainly offsets any cost savings. Wouldn't you need to cut costs more than \$1.65 billion to make this deal work?

*Question 1c.* How do you intend to pay down the estimated \$24 billion in debt that the new airline would owe?

*Question 1d.* If the Department of Justice approves the deal, isn't it likely that you will be forced to divest routes and assets which would force you to make layoffs? How can you promise not to cut jobs this early in the process?

Answer. On January 31, US Airways withdrew its offer to merge with Delta Air Lines. US Airways was informed that Delta's Official Unsecured Creditors' Committee would not meet our demands by the February 1, 2007 deadline we had previously established. US Airways' offer of \$5.0 billion in cash and 89.5 million shares of US Airways stock would have expired on February 1st, unless there was affirmative support from the Official Unsecured Creditors' Committee for commencement of due diligence, making the required Department of Justice filings under Hart-Scott-Rodino, as well as the postponement of Delta's hearing on its Disclosure Statement scheduled for February 7, 2007.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. BILL NELSON TO  
W. DOUGLAS PARKER

*Question 1.* Competition is the key here; more carriers competing on a route gives travelers more choices, which keeps costs down. It's my understanding that the proposed merger would give the new airline a 90 percent share of travelers from Florida cities to 370 locations around the globe. Can you explain how that would not result in higher costs for Floridians?

Answer. On January 31, US Airways withdrew its offer to merge with Delta Air Lines. US Airways was informed that Delta's Official Unsecured Creditors' Committee would not meet our demands by the February 1, 2007 deadline we had previously established. US Airways' offer of \$5.0 billion in cash and 89.5 million shares of US Airways stock would have expired on February 1st, unless there was affirmative support from the Official Unsecured Creditors' Committee for commencement of due diligence, making the required Department of Justice filings under Hart-Scott-Rodino, as well as the postponement of Delta's hearing on its Disclosure Statement scheduled for February 7, 2007.

Had our proposal to merge with Delta Air Lines gone forward, the Department of Justice would have conducted a full and thorough evaluation of the transaction to ensure that the benefits to consumers would have outweighed any potential negative impact. Ample and adequate authority is vested in DOJ under the time-tested laws in place for evaluating business transactions such as our proposal. We are confident that DOJ would have exercised its lawful authority in the best interests of the American traveler. We, of course, were confident that our proposal would have passed muster with the Department of Justice and that consumers would have, in fact, benefited from a merger between US Airways and Delta.

*Question 2.* You've said cost savings could come from cutting "marginal capacity," but what guarantee can you give that you won't simply cut from an entire region? My rural constituents (Pensacola, Tallahassee, Panama City) don't have a whole lot of choices to begin with.

Answer. Again, the US Airways proposal to merge with Delta was withdrawn on January 31. I pledged repeatedly on behalf of US Airways that, had the proposed merger gone forward, all existing U.S. destinations served today by US Airways and Delta would have remained part of the new, improved network. The "New" Delta would have provided communities served by both carriers with access to a wider range of network options. Furthermore, consumers would have benefited from our low fare business philosophy.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. FRANK R. LAUTENBERG TO  
W. DOUGLAS PARKER

*Question 1.* Labor costs are one of the highest costs for air carriers. Is it an unfair competitive advantage for airlines to be required to fully fund their employee pension plans while others are relieved of pension obligations through bankruptcy or other procedures?

Answer. Through the bankruptcy proceeding and as a result of laws sought by Delta and passed last year by the U.S. Congress, Delta Air Lines has been substantially relieved of its pre-bankruptcy pension obligations. Lawfully achieved, we don't know of any reason why pension relief is any more unfair for one airline than for another.

Had the former US Airways not been lawfully relieved of pension obligations through bankruptcy, it is highly unlikely that America West Airlines would have sought to merge with the company. At the time of that merger, the former US Airways was in serious financial distress. Had the America West/US Airways merger not gone forward, it is virtually a certainty that many thousands of former US Airways employees would have lost their jobs.

*Question 2.* If the Pension Benefit Guaranty Corporation requires US Airways to restore its pension programs to pre-termination status, how will this affect US Airways' ability to compete in the airline industry?

Answer. We do not believe the PBGC will seek to impose pension obligations of the former US Airways on the newly formed company resulting from the merger of America West Airlines and the old US Airways. Should the agency attempt to do so, we do not believe it would ultimately succeed under existing law.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. MARK PRYOR TO  
W. DOUGLAS PARKER

*Question 1.* You have stated that a merged US Airways and Delta would reduce available seat miles by 10 percent while increasing revenues per available seat mile 3.5 percent. Does this mean fewer seats at higher prices?

*Question 2.* US Airways has hubs in Charlotte, Philadelphia, Pittsburgh, Phoenix, and Las Vegas, while Delta has hubs in Atlanta, Cincinnati, Dallas/Ft. Worth, and Salt Lake City. The Charlotte and Atlanta hubs have very similar overlays. There have been reports that with a US Airways/Delta merger, the Charlotte hub could see as much as a 50 percent reduction in flights. What do you plan to do with the Charlotte/Atlanta hubs?

*Question 3.* The Department of Justice is expected to look at cities served and city pairs served to determine whether the proposed merger will substantially increase market concentration and decrease competition. US Airways and Delta serve many of the same destinations, especially along the East Coast and South. It has been reported that a merged airline would be the largest airline in 155 of 350 airports served. It has also been reported that the merger would result in over 2,000 city pairs where the combined airline would have a 90 percent market share. Should the merger occur, how will the combined city pairs impact airports like LIT and XNA in Arkansas, which are currently served by both airlines—can consumers expect a reduction in flights, fewer destinations, a decrease in service or increased fares?

Answer to Questions 1–3. On January 31, US Airways withdrew its offer to merge with Delta Air Lines. US Airways was informed that Delta's Official Unsecured Creditors' Committee would not meet our demands by the February 1, 2007 deadline we had previously established. US Airways' offer of \$5.0 billion in cash and 89.5 million shares of US Airways stock would have expired on February 1st, unless there was affirmative support from the Official Unsecured Creditors' Committee for commencement of due diligence, making the required Department of Justice filings under Hart-Scott-Rodino, as well as the postponement of Delta's hearing on its Disclosure Statement scheduled for February 7, 2007.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN F. KERRY TO  
ROBERT ROACH, JR.

*Question 1.* Can you give me an overview of how US Airways has worked to integrate your America West members since the merger?

Answer. The Machinists Union and US Airways began integration/transition negotiations immediately after the National Mediation Board certified the Machinists as the collective bargaining representative for the combined airline's 15,000 Fleet Service Workers (May 11, 2006) and Mechanic & Related and Maintenance Training Specialist employees (August 11, 2006). The goal of these negotiations is to integrate workers from both airlines under a single agreement and seniority list for each classification. Currently, former America West employees work under collective bargaining agreements negotiated by their former unions while US Airways workers in these classifications work under Machinist Union contracts. Employees doing the same job for the same company have different work rules, wages and benefits, which is divisive and inefficient. US Airways has failed to negotiate in good faith to reach an agreement. Meanwhile, the airline's CEO and other top management officials receive generous bonuses and stock as a reward for delaying negotiations and preventing employees from receiving benefits from the merger.

*Question 2.* Assuming that Delta's creditors approved the US Airways' offer, and based on your experience with US Airways, do you believe that layoffs are inevitable?

It is my opinion that a merger the size of the once-contemplated US Airways/Delta merger could not be accomplished without major layoffs.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. FRANK R. LAUTENBERG TO  
ROBERT ROACH, JR.

*Question.* Labor costs are one of the highest costs for air carriers. Is it an unfair competitive advantage for airlines to be required to fully fund their employee pension plans while others are relieved of pension obligations through bankruptcy or other procedures?

Answer. Bankruptcy makes it too easy for airlines to shed pension obligations. Airlines should work with their unions to develop creative solutions to address a

pension shortfall before it becomes a critical issue. The Machinists Union advised United Airlines in 2000, 5 years before they terminated their pensions, that our analysis showed they were headed for a major pension funding problem. The Machinists Union offered solutions, such as freezing the company sponsored plan at that time and transitioning into the IAM's multi-employer National Pension Plan. United refused, and the IAM's predictions came true. Following the terminations of the company sponsored plans, United's IAM members now participate in the IAM National Pension Plan. Unfortunately, United's refusal to address the problems earlier cost its employees dearly because of the loss of promised benefits.

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RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. MARK PRYOR TO  
ROBERT ROACH, JR.

*Question.* Should the Department of Justice allow this merger, would this lead to other mergers among other "legacy-carriers" in the industry? What impact might this have on labor?

*Answer.* Although this merger offer has been withdrawn, the danger of other mergers still linger. I believe that if any two legacy carriers merge it will ignite a frenzy for the others to pair up or be left at a competitive disadvantage. Airline mega-mergers are designed to reduce redundancies, and that means a loss of jobs. Thousands of TWA workers are still out of work following its 2001 merger with American Airlines. The mergers being contemplated today would lead to even greater job loss.

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RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN F. KERRY TO  
DR. MARK N. COOPER

Since the merger proposal was obviously based entirely on a US Airways scheme to use bankruptcy to abrogate contracts and the anticompetitive nature of the merger was make overwhelmingly clear at the hearing and elsewhere, most of the questions are moot.

*Question 1.* In your written testimony, you state that the US Airways/Delta merger will "have substantial anti-competitive effects that will be impossible to ameliorate with traditional anti-trust authorities," and that "the spin-off of some assets to repair the competitive harm in the markets would occur in city pairs that are already insufficiently competitive." Can you give me an example of a divestiture that US Airways would be forced to make that would not attract a new carrier and would result in less competition in that market?

*Answer.* I have no specific example in mind.

*Question 2.* Why would traditional anti-trust authority fail to ensure competition?

*Answer.* Because they have been captured by the theory of efficiency at the expense of competition and have been asleep at the switch for the better part of a decade.

*Question 3.* Can you give me examples of markets that both US Airways and Delta serve that are insufficiently competitive?

*Answer.* All of the routes served by 2, 3, or 4 are certainly not sufficiently competitive. The 5 and 6 carrier routes are also a source of concern.

*Question 4.* How many markets would experience a decline in competition if this merger is approved?

*Answer.* The best count I saw was 1,000 to 2,000 routes.

*Question 5.* Have you reviewed US Airways ticket prices since it merged with America West? Have they increased, and if so, where?

*Answer.* I have not reviewed their prices specifically. However, I believe there have been industry-wide price increases.

*Question 6.* Is there a historical example that you can give of two airlines in similar size and route structure to US Airways and Delta that resulted in higher fares?

*Answer.* The history of the mergers outlined in my testimony shows a pattern of price increases. The closest similar proposed merger—US Airways/ United, was opposed by the Department of Justice.

*Question 7.* Can you list any small markets that aren't served by low-cost carriers that would see a decrease in competition if the merger is approved?

*Answer.* I believe that most of the 1,000 to 2,000 routes that involve a 2-to-1 or 3-to-2 merger fall into this category, as the low-cost airlines tend to serve much higher volume routes.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. BILL NELSON TO  
DR. MARK N. COOPER

*Question.* The skies have been pretty bumpy for airlines in recent years. The Air Transportation Stabilization Board (ATSB) guaranteed billions in loans and pensions have been dumped on the PBGC. This essentially means the merger is being funded by the taxpayers. And with a “new Delta” looking to end up with \$23 billion in debt—up from the \$10 billion Delta would hold coming out of bankruptcy. What kind of stability concerns does that raise? Are there any indications that taxpayers would end up bailing out a “new Delta” on a grander scale than we’ve already had to do?

*Answer.* We opposed the lavish bailout of the industry last time. Delta has done a good job of lowering its costs without abandoning its social responsibilities. I would assume that a second loan would not be forthcoming if Delta again gets into trouble.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON FRANK R. LAUTENBERG TO  
DR. MARK N. COOPER

*Question.* Labor costs are one of the highest costs for air carriers. Is it an unfair competitive advantage for airlines to be required to fully fund their employee pension plans while others are relieved of pension obligations through bankruptcy or other procedures?

*Answer.* I think it is unfair for airlines not to fully fund their pension obligations.

